



**PUBLIC HEARING**

**Agenda Item # 1**

**AGENDA REPORT SUMMARY**

**Meeting Date:** August 21, 2018

**Subject:** Resolution No. 2018-29: Sewer Service Charges

**Prepared by:** Christopher Lamm, Engineering Services Manager

**Reviewed by:** Susanna Chan, Public Works Director

**Approved by:** Chris Jordan, City Manager

**Attachment(s):**

1. NBS Sewer Service Charge Amended Report dated August 2018 without Listing of Sewer Service Charges
2. Resolution No. 2018-29

**Initiated by:**

City Council – March 13, 2018 (Discussion Item #9)

**Previous Council Consideration:**

July 9, 2013; July 22, 2014; June 23, 2015; June 28, 2016; June 27, 2017; March 13, 2018; June 26, 2018; July 10, 2018

**Fiscal Impact:**

The amended rate report and expected revenues resulting from the posted rates are included in the City's approved FY 2018/19 budget.

**Environmental Review:**

Statutorily Exempt – CEQA Section 15273 Rates Fares Tolls and Charges.

**Policy Question(s) for Council Consideration:**

- Not Applicable

**Summary:**

- Adopt Resolution No. 2018-29 approving the Amended Report of Sewer Service Charges for Fiscal Year 2018/19 and directing the Filing of Charges for Collection by the County Tax Collector

**Staff Recommendation:**

Move to adopt Resolution No. 2018-29 approving the Amended Report of Sewer Service Charges for Fiscal Year 2018/19 and directing the Filing of Charges for Collection by the County Tax Collector



**Subject:** Sewer Service Charges

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### **Purpose**

Adopt Resolution No. 2018-29, approving the Amended Report of Sewer Service Charges for Fiscal Year 2018/19 and directing the Filing of Charges for Collection by the County Tax Collector.

### **Background**

Los Altos Municipal Code Chapter 10.12 authorizes the City to impose sewer service charges to fund costs associated with the City's sanitary sewer system. The City Council passed Ordinance No. 2013-394 in July 2013 that established sewer rates to be applied for the five-year period beginning July 1, 2013. The rates increased from year to year during years two through five of the five-year period to reflect historic trends in inflation associated with the sewer system.

To ensure that sewer utility continues to recover its costs of providing sewer services, the City performed a review of the sewer rate structure and calculation methodology with the assistance of consulting firm NBS. On March 13, 2018, the City Council approved the Sewer Rate Study prepared by NBS. The report recommends continuing to use the existing sewer rate calculation methodology for the five-year period from FY 2018/19 through FY 2022/23.

In accordance with Municipal Code sections 10.12.135 and 10.12.140 and as proposed, the rate structure for the sewer service charges are comprised of two components: (1) a fixed annual per parcel base charge that is determined on the basis of the number of equivalent dwelling units ("EDU") assigned to a property; and (2) a variable quantity charge. One EDU equates to the quantity of wastewater an average single-family residential customer contributes to the sewer system. One EDU is assigned to each single family residential home. The number of EDUs assigned to other customers is based on their expected wastewater flows relative to an average single-family residential customer. The quantity charge is imposed on a per unit basis, with one unit equal to one hundred cubic feet, or 745 gallons, of metered water use. The total amount of the of quantity charge is based on a customer's average winter water use from the prior year (using the three wettest months of the prior year) multiplied by 12 and is designed to reflect a customer's estimated wastewater flow. Estimated average winter water usage is used because individual sewer flows are not metered and winter months' water usage, when outdoor water use is least likely to occur, best reflects actual flows into the sewer system. The Sewer Rate Study establishes the FY 2018/19 per-parcel base sewer service charge of \$267.69 per dwelling unit plus a quantity charge of \$2.15 per estimated sewer unit.

The City's Sewer Service Charges are imposed pursuant to California Health and Safety Code section 5471 et seq. Section 5471 previously required that charges adopted in accordance therewith be adopted by an ordinance approved by two-thirds of the members of the City Council. Health and Safety Code section 5471 was amended in 2016 and allows such sewer service charges to be adopted by an ordinance or a resolution approved by two-thirds of the members of the City Council.



**Subject:** Sewer Service Charges

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### **Discussion/Analysis**

On June 26, 2018, City Council conducted a public hearing on the proposed revisions of the rates for the sewer service charges.

On July 10, 2018, the City Council adopted Resolution 2018-445 approving the Report of Sewer Charges, however, after the public hearing and adoption, it was discovered that the calculations used by the consultant to determine the sewer fees were performed incorrectly affecting 11,166 of the 11,992 parcels being charged. Upon this discovery an amended sewer charges report was prepared and publicly noticed for adoption. The net result is a reduction in fees collected of \$17,566.

To levy sewer service charges on property tax bills for FY 2018/19, the Council must hold a new hearing on the amended report of charges to be submitted to the County for collection for the fiscal year. That amended report, prepared by NBS, is on file with the City Clerk and the body of the amended report (excluding the parcel list) is included here as Attachment 1. Following the hearing, the Council may adopt Resolution No. 2018-29 and direct the Filing of Charges for Collection by the County Tax Collector. Notices of the hearing to consider the Amended Annual Sewer Service Charge Report were published in the Mercury News on August 11, 2018 and August 17, 2018. Posting of the meeting agenda serves as notice to the public.

The average annual charge for a single-family residence in FY 2017/18 was \$440.40 and the average charge for a single-family residence for FY 2018/19 is \$444.82. The total annual sewer service charge revenue was \$5,860,841 in FY 2017/18 and the total estimated annual sewer service charge revenue for FY 2018/19 is \$5,970,438.

### **Options**

- 1) Approve Staff Report Recommendations

**Advantages:** The amended rate report and expected revenues resulting from the posted rates are consistent with the City's FY 2018/19 budget

**Disadvantages:** None

- 2) Do not approve sewer service charges

**Advantages:** None

**Disadvantages:** The City would not have adequate funding to finance O&M and CIP Projects of the Sewer Fund



**Subject:** Sewer Service Charges

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**Recommendation**

The staff recommends Option 1.



# CITY OF LOS ALTOS

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## Sewer Service Charge

### 2018/19 Amended Annual Report

August 2018

#### OFFICE LOCATIONS:

**Temecula – Corporate Headquarters**  
32605 Temecula Parkway, Suite 100  
Temecula, CA 92592

**San Francisco – Regional Office**  
870 Market Street, Suite 1223  
San Francisco, CA 94102

**California Satellite Offices**  
Atascadero, Davis  
Huntington Beach,  
Joshua Tree, Riverside  
Sacramento, San Jose

[www.nbsgov.com](http://www.nbsgov.com)

## ATTACHMENT 1

Prepared by:



**CITY OF LOS ALTOS  
SEWER SERVICE CHARGE  
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**CITY COUNCIL**

Jean Mordo, Mayor

Lynette Lee Eng, Vice Mayor

Jeannie Bruins, Councilmember

Jan Pepper, Councilmember

Mary Prochnow, Councilmember

**CITY STAFF**

Chris Jordan, City Manager

Susanna Chan, Public Works Director

Christopher Lamm, Engineering Services Manager

Aida Fairman, Senior Civil Engineer

**NBS**

Tim Seufert, Client Services Director

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# 1. INTRODUCTION

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The City of Los Altos (the “City”) imposes a Sewer Service Charge to fund costs associated with the City’s sanitary sewer system in accordance with its Municipal Code Chapter 10.12. The City restructured the Sewer Service Charge in July 2013 to ensure a flow-of-funds for the on-going operation and maintenance, and to fund the upgrading and refurbishing of the City’s sanitary sewer system. The main objectives for updating the rate structure were to ensure a fair and equitable charge to all sewer users and to stabilize the charges to provide needed revenue.

A new study was completed in February 2018 to support increased rates beginning July 1, 2018 and ending June 30, 2023. The City Council adopted an Ordinance in July 2018 establishing the Sewer Service Charge to be applied to each of the succeeding five fiscal years, which is comprised of a base charge per equivalent dwelling unit, plus a usage charge per estimated sewer unit. The adopted rate structure makes structural improvements to the City’s sewer revenue stream, which will assist in reducing revenue volatility and equitably allocate costs to each customer class of sewer use by improving the distribution of costs across customer classes, as well as within each class.

The Public Hearing was held on June 26, 2018. There was no majority protest amongst the property owners. The Ordinance was approved at the first reading on June 26, 2018 and adopted at the second reading on July 10, 2018. The increased rates, based on the new rate study, will commence thirty (30) days later on August 10, 2018. As such, the Sewer Service Charges for the first forty (40) days of Fiscal Year 2018/19 are calculated using the Fiscal Year 2017/18 rates prorated for July 1, 2018 through August 9, 2018. The new Sewer Service rates for Fiscal Year 2018/19 are prorated to three-hundred-twenty-five (325) days and applied to August 10, 2018 through June 30, 2019, as illustrated in Section 3 of the report. Future years’ rate schedules will commence as scheduled on July 1<sup>st</sup> of each year.

The Sewer Service Charge is levied pursuant to the California Health and Safety Code, Sections 5471 et seq. and the City’s Municipal Code Chapter 10.12. Payment of the Sewer Service Charge for each parcel will be made in the same manner and at the same time as payments are made for property taxes. This report contains the necessary data required to establish the Sewer Service Charge and is submitted for filing in the office of the City Clerk, where it shall remain open for public inspection.



## 2. SEWER SERVICE CHARGE CALCULATION

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The total annual Sewer Service Charge for a parcel will be the sum of the base charge plus the usage charge. The calculation for each charge is described in this section.

### **Base Charge (Per EDU)**

The base charge is determined by multiplying the per equivalent dwelling unit (EDU) rate by the number of EDUs on each parcel. For residential parcels, 1.0 EDU is assigned for each dwelling unit (multi-family residential parcels included).

Parcels with non-residential structures or improvements shall also be assigned 1.0 EDU for the first 110 water units (or fraction thereof) of estimated sewer use for non-residential improvements on the parcel plus a number of additional EDUs (or fractions thereof) equal to the remaining estimated sewer use for non-residential improvements on the parcel divided by 110. A minimum of 1.0 EUD is assigned to each non-residential parcel.

Where multiple non-residential parcels share a common water meter, the equivalent dwelling units calculated based on water use measured by that meter shall be divided equally amongst the parcels sharing the meter.

### **Usage Charge (Per Unit of Estimated Sewer Use)**

The usage charge is based on water consumption data provided by the California Water Service Company for the previous year. The three monthly billing periods which indicate the lowest total water consumption are selected as the wet seasons in that they represent a reasonable approximation of the amount of sewer usage. Water usage from the wet season months is averaged and multiplied by 12 to calculate estimated annual sewer usage.

Where actual monthly water consumption data is not available for a water account on a parcel (as when a structure(s) on the parcel is recently connected to a water system), sewer use is estimated as the average estimated sewer use for the prior year of all parcels in the same land use. For purposes of this section, land uses are classified as follows:

- ñ Single-Family Home
- ñ Condominium Unit
- ñ Multi-Family Residence (two dwelling units)
- ñ Multi-Family Residence (three to four dwelling units)
- ñ Multi-Family Residence (five or more dwelling units)
- ñ Church
- ñ Commercial/Industrial
- ñ Institutional
- ñ Park
- ñ School
- ñ Government

### 3. SEWER SERVICE CHARGE CALCULATION

To provide the revenue to keep up with the increase in projected revenue needs, the City adopted an updated five-year rate structure in July 2018. Both the base charge and the usage charge per sewer unit will be increased annually each year. The first table below shows the adopted rates through Fiscal Year 2022/23 based on the rate study.

Adopted Rates	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Per EDU (Base Charge)	\$267.69	\$275.72	\$283.99	\$292.51	\$301.29
Per Unit of Estimated Sewer Use (Usage Charge)	\$2.15	\$2.21	\$2.28	\$2.35	\$2.42
Percentage Increase over Prior Fiscal Year	2.5%	3.0%	3.0%	3.0%	3.0%

The Sewer Service Charges for the first forty (40) days of Fiscal Year 2018/19 are calculated using the Fiscal Year 2017/18 rates prorated for July 1, 2018 through August 9, 2018. The new Sewer Service Rates are prorated to three-hundred-twenty-five (325) days and applied to August 10, 2018 through June 30, 2019. Future years’ rate schedules will commence as scheduled on July 1 of each year.

For example, a single-family residential parcel that was billed for 6 ccf, 6 ccf, and 7 ccf of water consumption on its January, February, and March 2017 water bills would have its FY 2018-19 Sewer Service Charge calculated based on an average monthly water consumption of 6.33 ccf. Therefore, the FY 2018-19 Sewer Service Charge for that parcel would be for 76 units of annual sewer use (6.33 average monthly water consumption X 12 months). Based on the calculation illustrated below, the Fiscal Year 2018/19 Sewer Service Charge is \$429.73.

Rate Effective	Sewer Service Charge <sup>(1)</sup>	=	Sewer Base Rate	x	Number of Days <sup>(2)</sup>	=	Sewer Base Charge	x	EDU	+	Sewer Use Rate	x	Water Units
7/1/18 - 8/9/18	\$45.88		\$261.35		40		\$28.64		1		\$2.07		8
8/10/18 - 6/30/19	\$383.85		\$267.69		325		\$238.35		1		\$2.15		68
<b>Total</b>	<b>\$429.73</b>				<b>365</b>								<b>76</b>

(1) Charges may be rounded down to the nearest even penny as required by the County for placement on the tax roll.

(2) Number of Days is divided by 365 to multiply by the Base Rate to get the Base Charge. The calculation is 40/365 and 325/365, respectively.

## 4. WET SEASON MONTHS

The “wet season months” are the three monthly billing periods for which the records of the California Water Service Company indicate the lowest total water consumption during that calendar year by parcels connected to the City’s sewer system that are serviced by the California Water Service Company.

In 2017, the City’s three lowest months for water use were January, February, and March. Therefore, these are the months used to calculate each individual parcel’s estimated annual sewer usage for Fiscal Year 2018/19.

The following table provides the total annual sewer usage for calendar year 2017, as provided by the California Water Service Company.

Calendar Year 2017 Total Water Consumption for the City of Los Atos (1,2)											
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
101,951	90,303	90,750	135,569	178,946	317,921	329,793	338,273	350,636	293,305	242,600	162,680

(1) Data provided by the California Water Service Company for the City of Los Altos and certain parcels located within the Town of Los Altos Hills and unincorporated areas of the County that are connection to the City’s sewer system.

(2) One unit = 100 cubic feet of sewer use.

## 5. SUMMARY OF LAND USE CLASSIFICATIONS

The following summarizes the estimated annual sewer usage for properties that are connected to the City's sewer system for Fiscal Year 2018/19.

Land Use Classification	Number of Parcels (1)	Total Estimated Yearly Sewer Use (in Units) (1)	Average Sewer Use Per Parcel (2)
Single-Family Home	10,331	857,870	83
Condominium Unit	1,029	41,658	40
Multi-Family Residence (two units)	65	6,720	103
Multi-Family Residence (three to four dwelling units)	14	1,728	123
Multi-Family Residence (five or more dwelling units)	22	25,788	1,172
Church	21	9,903	472
Commercial/Industrial	484	104,769	216
Institutional	3	18,042	6,014
Park	4	2,444	611
School	10	8,248	825
Government	9	6,924	769

- (1) 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 City's sewer system, are receiving service from the Mountain View sewer program and are not included in the above table or subject to City'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 Sewer Service Charge. Instead, the full cost of the services indirectly provided by the Town of 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.
- (2) Average consumption based upon parcels where actual usage data was available. Developed properties that are connected to the City's sewer system, which water consumption information is not available, are charged at the average sewer use per parcel identified above.

## 6. LISTING OF SEWER SERVICE CHARGES

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A list of parcels subject to the Sewer Service Charge as shown on the last equalized Property Tax Roll of the Assessor of Santa Clara County is on file in the office of the City Clerk of the City of Los Altos. The list contains a description of each parcel receiving such services and the amount of the charge for each parcel for Fiscal Year 2018/19.

## 7. RESOLUTION FOR FISCAL YEAR 2018/19

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The following page presents the Resolution approving the report of Sewer Service Charges for Fiscal Year 2018/19 and directing the filing of charges for collection by the Santa Clara County Tax Collector.

**RESOLUTION NO. 2018-29**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LOS ALTOS  
APPROVING THE AMENDED REPORT OF SEWER SERVICE CHARGES  
FOR FISCAL YEAR 2018/19 AND DIRECTING THE FILING OF CHARGES  
FOR COLLECTION BY THE COUNTY TAX COLLECTOR**

**WHEREAS**, pursuant to Chapter 10.12 of Los Altos Municipal Code, the City of Los Altos imposes Sewer Service Charges upon parcels connected to the sewer system; and

**WHEREAS**, pursuant to section 5471 of the California Health & Safety Code, the City Council has elected to annually collect the Sewer Service Charges on the property tax roll; and

**WHEREAS**, the Public Works Director has caused to be prepared an amended report (the "Amended Report") containing a description of each parcel of real property subject to the Sewer Service Charges and the amount of the Sewer Service Charges to be imposed on each such parcel for Fiscal Year 2018/19, computed in conformity with the rates prescribed by Ordinance of this City Council, which amended report is filed with the City Clerk, available for public inspection, and incorporated herein by reference; and

**WHEREAS**, on August 21, 2018, following the publication of notice as required by law, the City Council held a full and fair public hearing with respect to the Amended Report, and at such hearing the City Council heard and considered all protest and objections to the Amended Report; and

**WHEREAS**, the City Council desires to approve the Amended Report and to submit the Sewer Service Charges described therein to the Santa Clara County Tax Collector for collection on the Fiscal Year 2018/19 tax roll.

**NOW THEREFORE, BE IT RESOLVED**, that the City Council of the City of Los Altos hereby authorizes that:

1. The City Council hereby overrules all protests and objections to the Amended Report on the Sewer Service Charges and confirms and approves the Amended Report and the Sewer Service Charges to be imposed on each parcel within the City subject to such charges as submitted; and
2. The City Clerk is instructed and authorized to transmit the Amended Report to the Santa Clara County Tax Collector and to file the necessary documents with the Tax Collector that the Sewer Service Charges set forth in the Amended Report will be included on the Santa Clara County Tax Roll for Fiscal Year 2018/19.

**I HEREBY CERTIFY** that the foregoing is a true and correct copy of a Resolution passed and adopted by the City Council of the City of Los Altos at a meeting thereof on the 21<sup>st</sup> day of August, 2018 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Jean Mordo, MAYOR

Attest:

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Jon Maginot, CMC, CITY CLERK