

MEETING DATE: 06/11/07

AGENDA ITEM: PUBLIC HEARING for the Adoption of a Resolution to
Approve the Engineer's Report and to Order the
Assessment Levy for the Sewer User's Service Charge
for Fiscal Year 2007/2008

ATTACHMENTS

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Culver CITY

PUBLIC WORKS DEPARTMENT

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CHARLES D. HERBERTSON, PE, LS
Public Works Director and
City Engineer

ENGINEER'S REPORT

ON THE ANNUAL LEVY

2007-2008

SEWER USER'S SERVICE CHARGE

IN THE CITY OF CULVER CITY UNDER THE

PROVISIONS

OF CHAPTER 5.02 OF THE CODE OF THE CITY OF

CULVER CITY, CALIFORNIA

FILED with the City Clerk
On June 11, 2007

PRESENTED to the City Council
and APPROVED by Resolution
No. 2007- R ____, adopted by said
City Council on June 11, 2007
and thereafter filed in the
Office of the City Clerk

CHRISTOPHER ARMENTA
City Clerk
City of Culver City

June 11, 2007

TO: The Honorable Mayor and Members of the City Council

FROM: Charles D. Herbertson, Public Works Director and City Engineer

CITY ENGINEER'S REPORT FOR SEWER USER'S SERVICE CHARGES FOR FISCAL YEAR 2007-08

1.0 Introduction

A major challenge confronting those responsible for wastewater infrastructure, transportation, treatment and disposal is acquiring adequate funds to finance and operate facilities and capital equipment, along with implementing appropriate pricing structures to ensure the self-sufficiency of the utility. The financing vehicle that is used by the utility and the timing of the financing are crucial in ensuring that wastewater customers are appropriately paying for facilities that they need, and not inappropriately financing facilities for future customers. It is a major goal of an effective financial plan to 'match' the economic impact on customers with the benefits received from the service.

Regulations governing Federal and State grant funds require the City of Los Angeles to maintain a Cost Recovery Program (Sewer User Charges System) which includes all operations and maintenance costs directly or indirectly related to the treatment and collection of liquid waste discharge by residents and businesses. As a result of Culver City's contractual relationship with the City of Los Angeles for wastewater treatment at the Hyperion Treatment Facility, Culver City (City) is also required to recover from each wastewater user their proportionate share of the costs incurred for wastewater collection capital improvements within Culver City, wastewater system operation and maintenance, City of Los Angeles capital improvements for conveyance to Hyperion and operation and maintenance at Hyperion. Accordingly, Culver City adopted a plan to collect wastewater user charges and implemented it for the first time in fiscal year 1980-81.

The City recovers wastewater user charges on an annual basis. Since the plan's inception, the County Auditor-Controller's offices, and the annual property tax bill, have been utilized as the vehicle for both billing and collection. This method has proven to be both functionally satisfactory and exceptionally economical over the last twenty six years.

In order to achieve a fair and equitable system of wastewater user charges, users are charged in a manner consistent with their actual use of the system. This comprises not only the flow quantity, but also the wastewater strength (quality) as characterized by BOD (biochemical oxygen demand) and SS (suspended solids).

Pursuant to the Culver City Municipal Code, in FY 2003-04 the City performed a review of the Sewer User's Service Charges (SUSC) structures and billing formulas to ensure that the City utilizes an effective pricing structure within the constraints of Proposition 218. Additionally, the City wants to ensure that its sewer pricing structure continues to achieve the goals and objectives of the community, while maintaining a fair and equitable distribution of costs to all of its customers.

2.0 Discussion

Staff recommends a 10 percent increase as explained in Section 3 of this report and that these rates be used to prepare the SUSC assessment for the 2007-2008 tax rolls. Staff believes, based on the current Sewer Fund balances and the anticipated revenues and costs, that this approach will protect the solvency of the Fund.

Credits for residential landscaping can be given in two ways. 1) Either the resident can install a separate water meter for landscaping which will not be assessed on the tax bill or 2) prove by submitting calculations and evidence that the percentage reduction in the tabled formula is not adequate.

Last year, the City of Los Angeles charged \$2,434,728 for operations, maintenance and capital improvements for the treatment and conveyance of Culver City wastewater. In fiscal year 2007/2008, they are requesting Culver City to pay \$2,833,300. This is a 16% increase.

3.0 Calculation of Annual Revenue Requirements

For fiscal year 2007/08 the projected proposed revenue requirement is determined as follows:

Operating Costs - City	\$2,331,175
Operating and Capital Projects Costs Hyperion	\$2,833,300
Debt Service	\$1,701,569
Sewer User Service Charge credits - estimated	\$50,000
City of L.A. Sewer Facility Charge - estimated	\$75,000
Capital Projects – City	\$1,350,000
Total FY 2007/2008 Budget	\$8,341,044

Table 1 shows the Five-Year Cash Flow Projection for the Sewer Enterprise Fund.

In fiscal year 2002/03, City Council approved a five year SUSC rate-stabilization program identifying the need for annual 10% revenue increases until Fiscal Year 2006/07. In fiscal year 2003/04 the Engineer's Report adopted by City Council included a recommendation to maintain a Sewer Enterprise Reserve Fund that as a minimum should be equal to:

Minimum Reserve Fund = 70% of annual operations budget + 2 yrs of debt service + annual capital improvements budget.

For fiscal year 2007-2008 the minimum required reserve fund is estimated to be \$8,368,270 and the available cash balance is projected to be \$19,768,742. However, with the increases projected by the City of Los Angeles in their January 10, 2007 5-year projection letter, the City of Culver City will begin operating at about a one million dollar operating deficit in fiscal year 2009-2010 even with the proposed 10% increase now and next year.

If the City does not raise the rates by 10% this year and the next two years, the cash balance reserve will fall from \$19,768,742 to \$14,237,632, reduction of \$5,531,110. With the unpredictability of City of Los Angeles sewer charges, it is recommended that the City continue to increase the sewer user service charge at 10% per year to keep the available cash balance from decreasing.

Therefore, Staff recommends that the current SUSC billing formulas be increased by 10 percent.

4.0 Summary of Current SUSC Rate Structure

The current SUSC Rate Structure is composed of a base charge and a commodity charge for all customer classifications:

A. Base Charge

The base charge of the SUSC is comprised of two components:

Customer Costs – Customer costs such as billing and customer service are fixed costs that tend to vary in proportion to the total number of customers served by the utility. Customer costs are therefore allocated to each customer based on the number of customer accounts.

Fixed Capacity Costs – Capacity costs are fixed costs associated with maintaining the sewer collection system. These costs include rents and leases. Capacity costs tend to vary in relation to the total capacity of the collection system. Capacity costs are therefore allocated to each customer based on number of accounts.

B. Commodity Charge

The Commodity Charge is also comprised of two components:

Collection System Costs – Collection system costs are debit service and variable costs associated with the maintenance of the underground pipelines from each customer and the integrated pipeline system prior to the discharge points to the City of Los Angeles transmission

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system. As there are no treatment costs involved in the maintenance of the Culver City collection system, these costs are allocated on a flow basis only.

Treatment Costs – The process and costs of providing transmission, treatment, and disposal of Culver City's customers' sewage are provided and determined by the City of Los Angeles. These costs are considered variable costs, as they vary with the flow and sewage strength as metered and determined by the City of Los Angeles. Treatment costs are recovered through commodity rates charged on the basis of each customer's adjusted actual water usage and their assumed sewage strengths. Prior to the beginning of each fiscal year Los Angeles provides Culver City with the Amalgamated System Sewerage System charge rates for the upcoming fiscal year.

5.0 Current SUSC Rates for 2006-07

$$\boxed{\text{Base Charge}} + \boxed{\text{Annual Water Usage}} \times \boxed{\text{Return to Sewer Percentage}} \times \boxed{\text{Rate for the Customer Class}} = \boxed{\text{SUSC}}$$

Table 2
SUSC Current Billing Formulas for FY06/07

Base Charge				Commodity Charge (Per HCF Annual Flow)
Multi-Family	\$	38.47 per unit+		(0.85W x \$3.50)
Single Family	\$	38.47	+	(0.58W x \$3.50)
Group II Users:	\$	38.47	+	(W x \$3.50)
Group III Users:	\$	38.47	+	(W x \$6.94)
Group IV Users:	\$	38.47	+	(W x \$3.41)
Group V Users:	\$	38.47	+	(W x \$2.96)
Group VI Users:	Individual Special Users			
	601	\$ 38.47	+	(W x \$3.73)
	602	\$ 38.47	+	(W x \$4.86)
	603	\$ 38.47	+	(W x \$4.86)
	604	\$ 38.47	+	(W x \$3.41)
	605	\$ 38.47	+	(W x \$2.92)
	606	\$ 38.47	+	(W x \$4.86)
	607	\$ 38.47	+	(W x \$3.50)
	609	\$ 38.47	+	(W x \$3.50)
W=Annual Water Consumption				

6.0 Proposed SUSC Rates for 2007-08

Base Charge	+	Annual Water Usage	X	Return to Sewer Percentage	X	Rate for the Customer Class	=	SUSC
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Table 3
SUSC Proposed Billing Formulas for FY07/08

	Base Charge			Commodity Charge (Per HCF Annual Flow)
Multi-Family	\$	42.32 per unit+		(0.85W x \$3.85)
Single Family	\$	42.32	+	(0.58W x \$3.85)
Group II Users:	\$	42.32	+	(W x \$3.85)
Group III Users:	\$	42.32	+	(W x \$7.63)
Group IV Users:	\$	42.32	+	(W x \$3.75)
Group V Users:	\$	42.32	+	(W x \$3.26)
Group VI Users: Individual Special Users				
601	\$	42.32	+	(W x \$4.10)
602	\$	42.32	+	(W x \$5.35)
603	\$	42.32	+	(W x \$5.35)
604	\$	42.32	+	(W x \$3.75)
605	\$	42.32	+	(W x \$3.21)
606	\$	42.32	+	(W x \$5.35)
607	\$	42.32	+	(W x \$3.85)
609	\$	42.32	+	(W x \$3.85)
W=Annual Water Consumption In HCF				

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7.0 Recommendations:

In summary, Staff makes the following recommendations:

- Continue to use Los Angeles Auditor-Controller property tax roll for SUSC billing purposes as it eliminates costly billing systems, additional staff, and minimizes bad debt.
- Adopt a resolution that allows a 10 percent increase to the current SUSC billing formulas for fiscal year 2007/08 in order to meet the revenue requirements of the Sewer Enterprise and keep the projected cash balance reserve stable in the next several fiscal years.

Charles D. Herbertson RCE 46658
Public Works Director and City Engineer

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1 NOW, THEREFORE, the City Council of the City of Culver City, DOES
2 HEREBY RESOLVE as follows:

3 1. Upon the conclusion of the public hearing, written protests filed and
4 not withdrawn did not represent property owners owning more than fifty percent (50%) of
5 the area of assessable lands within the Service Charge area.

6 2. The Engineer's Report is hereby approved and the annual levy,
7 including a 10% increase of the Service Charge, as set forth and described in the
8 Engineer's Report and Resolution No. 2007-R021, is hereby ordered.

9 3. The diagram and assessment as set forth and contained in the
10 Engineer's Report are hereby confirmed and adopted.

11 4. The adoption of this Resolution constitutes the levy of the
12 assessment, including a 10% increase of the Service Charge, for the fiscal year
13 commencing July 1, 2007 and ending June 30, 2008.

14 5. The estimates of costs, the assessment diagram, the assessments,
15 and all other matters as set forth in the Engineer's Report as submitted pursuant to
16 CCMC § 5.02.035 are hereby approved and adopted.

17 6. The assessment for improvements as set forth in the Engineer's
18 Report and Resolution No. 2007-R021 shall be performed pursuant to law. The County
19 Auditor shall enter on the County Assessment Roll the amount of the assessment and
20 the assessment shall then be collected at the same time and in the same manner as the
21 County property taxes are collected. After collection by the County, the net amount of the
22 assessment shall be paid to the City Treasurer of the City of Culver City.

23 7. Upon receipt of monies representing assessments collected by the
24 County, the City Treasurer for the City of Culver City shall deposit the monies into a
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1 special fund known as the "Fund for Sewer User's Service Charge," which was previously
2 established.

3 8. Immediately upon the adoption of this Resolution, the City Clerk shall
4 file a certified copy of the Engineer's Report containing the diagram and assessment,
5 with the County Auditor.

6 9. A certified copy of the Engineer's report shall also be filed in the
7 Office of the City Engineer, with a duplicate copy on file in the Office of the City Clerk,
8 and shall be open for public inspection.
9

10 APPROVED and ADOPTED this 11th day of June 2007.

11
12
13 ALAN CORLIN, MAYOR
14 City of Culver City, California

15 ATTEST:

16 APPROVED AS TO FORM:

17 CHRISTOPHER ARMENTA, City Clerk

18 CAROL A. SCHWAB, City Attorney

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Culver CITY

PUBLIC WORKS DEPARTMENT

NOTIFICATION OF IMPORTANT AGENDA ITEM AT A FUTURE COUNCIL MEETING

The City Council will consider the following agenda item at their meeting of:

**June 11, 2007
Time 7:00 pm**

The City Council will conduct a Public Hearing to determine the assessment levy of the Sewer User Service Charge. A 10% increase over the 2006/2007 rates is proposed for fiscal year 2007/2008. The SUSC assessment district will benefit the entire city with sewer conveyance and treatment by the City of Los Angeles.

For more information contact:
Mate Gaspar (310) 253-5602
Engineering Services Manager

Location

Mike Balkman Council Chambers
9770 Culver Boulevard
Culver City, CA 90232

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CITY OF CULVER CITY
PO Box 507
9770 CULVER BOULEVARD
CULVER CITY CA 90232-0507

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Public Hearing: *to determine the assessment levy of the Sewer User Service Charge. A 10% increase over the 2006/2007 rates are proposed for fiscal year 2007/2008.*

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Table 1

Sewer Enterprise Fund Five Year Estimated Cash Flow Projection
(FY 2006-2012)

	ACTUAL						
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Beginning cash balance	19,588,000	19,511,854	19,298,037	19,768,742	20,246,990	19,336,114	18,780,346
Sewer User Service Charge	7,199,000	7,556,135	8,311,749	9,142,923	10,057,215	11,062,936	12,169,230
Industrial Waste Inspection Fee	60,000	60,000	60,000	60,000	60,000	60,000	60,000
CC & LA Sewer Facility Charges	1,355,564	85,000	150,000	325,000	85,000	85,000	85,000
Interest Income	450,000	350,000	350,000	350,000	300,000	250,000	250,000
Total Revenue	9,064,564	8,051,135	8,871,749	9,877,923	10,502,215	11,457,936	12,564,230
Less: Operating Costs							
Operating costs- City	2,442,237	2,157,815	2,331,175	2,465,331	2,539,291	2,615,470	2,693,934
Operating costs- Hyperion	961,296	1,217,364	1,416,650	1,664,000	1,967,500	2,069,150	2,283,500
Debt service	1,697,689	1,702,909	1,701,569	1,708,844	1,697,000	1,709,234	1,707,914
Industrial Waste Inspection Fee	60,000	60,000	60,000	60,000	60,000	60,000	60,000
LA Sewer Facility Charges	432,224	42,500	75,000	162,500	42,500	42,500	42,500
SUSC Refund Credits	116,875	50,000	50,000	50,000	50,000	50,000	50,000
Total Operating Expenditures	5,710,321	5,230,588	5,634,394	6,110,675	6,356,291	6,546,354	6,837,848
Capital Projects							
Capital expenditures- City	2,110,000	1,817,000	1,350,000	1,625,000	3,089,300	3,398,200	3,738,020
Capital expenditures- Hyperion	1,320,389	1,217,364	1,416,650	1,664,000	1,967,500	2,069,150	2,942,466
Total Capital Projects	3,430,389	3,034,364	2,766,650	3,289,000	5,056,800	5,467,350	6,680,486
Total Expenditures	9,140,710	8,264,952	8,401,044	9,399,675	11,413,091	12,013,704	13,518,334
Operating Surplus/Deficit	-76,146	-213,817	470,705	478,248	-910,876	-555,768	-954,104
Cash Balance- End of June	19,511,854	19,298,037	19,768,742	20,246,990	19,336,114	18,780,346	17,826,243