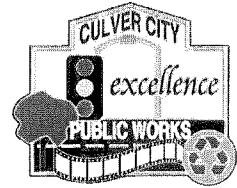




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ENGINEER'S REPORT

ON THE ANNUAL LEVY

2016-2017

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 8, 2016

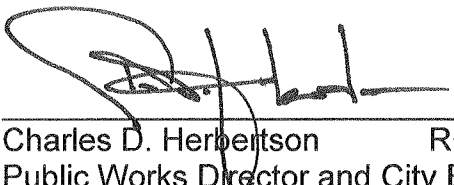
PRESENTED to the City Council
and APPROVED by Resolution
No. 2016-R____, adopted by said
City Council on June 13, 2016
and thereafter filed in the
Office of the City Clerk

City Clerk
City of Culver City

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 2016-17

 6/30/2016
Charles D. Herbertson RCE 46658
Public Works Director and City Engineer

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.

2.0 Discussion

In 2012, the City Council awarded a contract to NBS Government Finance Group dba NBS to conduct an in-depth review of the existing SUSC and determine if they were fair and equitable to each customer class taking into consideration the cost of City of Los Angeles services to convey and treat the wastewater and Culver City's costs for collection and conveyance of the sewage in its own system.

NBS determined the following findings:

1. The City's current sewer rates need to be adjusted to collect more revenue from single family customers and less from other customer classes, particularly commercial/restaurant customers.
2. The City should collect approximately 60% of rate revenue from base charges and 40% from its commodity charges based on the classification of current expenses as either fixed or variable. The City collected 90% of rate revenue from commodity charges. Fixed costs (which are associated with Base charges) are personnel costs (including cost for maintenance of the City's sewage collection system), office expense, and 75% of administrative charges and consultant support costs. These costs do not vary directly with the quantity of sewage produced. Variable costs (which are associated with Commodity Charges) are what the City pays to the City of Los Angeles for wastewater treatment-related costs, utilities at the pump stations, and 25% of administrative charges and consultant support. These charges are more directly tied to the quantity of sewage produced.
3. Existing landscape irrigation credits of 42% for residential customers are reasonable.

In addition, NBS prepared a 5-year financial plan/revenue requirements (2012/13 through 2016/17) for the sewer enterprise fund. These requirements are based on several factors such as NBS' recommended targets for operating, capital and debt reserve balances and the City's projected capital improvement program.

On July 22, 2013, after a 45 day public notice, the City Council, after receiving and hearing all public comment, adopted rate increases of 4% across all customer classes for each Fiscal Years, 2013-2014, 2014-15 and 2015-16, with the exception of only a 3% rate increase for single family residences in Fiscal Year 2015-2016. In addition, base charges were adjusted to a 60% / 40% revenue split. No rate increase was proposed for 2016/17.

DISCUSSION:

The recommended targets for reserve balances are as follows:

1. Operating Reserve – 25% or 90 days of operating and maintenance expenses.
2. Capital Rehabilitation and Replacement Reserve – 3% of system net assets. The net assets is based on the 2010/11 CAFR, plus capital asset additions and annual depreciation adjustments, it is estimated that the City's Net Asset value is approximately \$41.6 million.
3. Debt Reserve – the maximum annual debt service payment, as specified by the bond covenants.

These recommended targets for reserve balances equates to approximately \$4.5 million. The projected cash balance for 2016/17 is \$3.7 million. However, the construction of the new Bankfield pump station and diversion of several sewer pump stations will likely be under construction in Spring 2017. An increase in sewer rates may be likely in 2017/18 in order to increase the fund reserve.

	2012/2013	2013/2014 actual	2014/2015 actual	2015/2016 estimate	2016/2017 estimate	
Beginning unreserved cash balance	17,190,264	13,175,110	13,249,101	13,306,152	4,624,999	
Sewer User Service Charge	7,231,008	8,145,000	8,502,638	8,913,461	8,300,000	1
Interest Income	202,000	153,000	153,000	153,000	153,000	
Sewer Facility Fee	400,000	381,845	250,000	250,000	715,000	
Total Revenue	7,433,008	8,679,845	8,905,638	9,316,461	9,168,000	5
Less: Operating Costs						
Salaries and Benefits	1,367,370	1,299,899	1,325,897	1,352,414	1,379,462	2
Admin., insurance, rent, contractual svcs	2,153,592	2,786,755	2,842,490	2,900,000	2,957,000	3
L.A. Hyperion	1,136,000	1,107,000	1,200,000	1,645,000	1,800,000	
Bond Debt Service	1,605,200	1,605,200	1,605,200	1,605,200	1,605,200	
Total Operating Expenditures	6,262,162	6,798,854	6,973,587	7,502,614	7,741,662	5
Less: Capital Projects						
Culver City	4,050,000	700,000	675,000	8,850,000	500,000	4
L. A. Hyperion	1,136,000	1,107,000	1,200,000	1,645,000	1,800,000	
Total Capital Projects	5,186,000	1,807,000	1,875,000	10,495,000	2,300,000	
Total Expenditures	11,448,162	8,605,854	8,848,587	17,997,614	10,041,662	
Operating Surplus/Deficit	-4,015,154	73,991	57,051	-8,681,153	-873,662	
Cash Balance- End of June	13,175,110	13,249,101	13,306,152	4,624,999	3,751,337	

1. City Council approved 4% rate increase each fiscal year 2013/14, 2014/15, AND 2015/16, except 3% for single family residence for 2015/16.

2. Assuming 2% COLA increase

3. Assuming 2% increase excluding depreciation

4. In 2015/16 and 2016/17 construction of new Bankfield pump station and diversion of Bristol, Fox Hills, Mesmer and Overland sewer pump stations

5. Does not include City of Los Angeles sewer facility fees as they are pass through and industrial waste charges as they are paid to the County of Los Angeles for plan check and inspection.

3.0 Recommendation

The sewer user service charge rates remain the same for Fiscal Year 2016/2017 as per the following table:

Customer Class Code	Base Charge	Commodity Rate
101 Single Family ¹	\$274.80 +	(0.58W x \$1.25)
102 Multi-Family ²	\$220.42 +	(0.85W x \$1.25)
200 Commercial/Business:	\$274.80 +	(W x \$3.56)
300 Commercial/Restaurants:	\$274.80 +	(W x \$7.07)
400 Institutional:	\$274.80 +	(W x \$3.76)
500 School/Public:	\$274.80 +	(W x \$2.89)
600 Special Users (Description in Engineer's Report)		
601	\$ 274.80 +	(W x \$4.18)
602	\$ 274.80 +	(W x \$5.53)
603	\$ 274.80 +	(W x \$5.54)
604	\$ 274.80 +	(W x \$3.88)
605	\$ 274.80 +	(W x \$3.29)
606	\$ 274.80 +	(W x \$5.55)
607	NOT USED	NOT USED
608	\$ 274.80 +	(W x \$4.30)
609	NOT USED	NOT USED
610	\$ 274.80 +	(W x \$0.60)
611	NOT USED	NOT USED
612	\$ 138.52 +	(W x \$0)
613	\$ 274.80 +	(W X \$0.26)
614	\$ 274.80 +	(W x \$3.11)
615	\$ 274.80 +	(W x \$4.27)
W=Annual Water Consumption in HCF		
¹ Base charge is per parcel		
² Base charge is per dwelling unit		

Continue to use Los Angeles Auditor-Controller property tax roll for SUSC billing purposes for FY 2016-2017 as it eliminates costly billing systems, additional staff, and minimizes bad debt.