

MEETING DATE 06/26/06

AGENDA ITEM Consideration of Adoption of a Resolution Approving the Engineer s Report and Ordering the Assessment Levy for the Sewer User s Service Charge for Fiscal Year 2006/2007

ATTACHMENTS

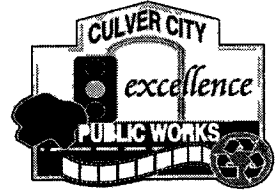
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Culver **CITY**

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

2006-2007

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 26 2006

PRESENTED to the City Council
and APPROVED by Resolution
No 2006- R ____ adopted by said
City Council on June 26 2006
and thereafter filed in the
Office of the City Clerk

CHRISTOPHER ARMENTA
City Clerk
City of Culver City

June 26 2006

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 2006-07

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

The City is in the process of reconciling its account with the City of Los Angeles. A credit may be due after this matter is resolved. The 5-year billing projections that the City of Los Angeles sent on January 26, 2006 requested an additional \$5,642,600 over the next four years from their previous 5-year projection in the previous year. Staff did not change the structure of the current SUSC rates for this fiscal year. Instead, 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 2006-2007 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.

Staff has been working with its consultant, Karen Scott and Associates, who has been reviewing the SUSC rate structure in order to ensure each user pays its appropriate share of the costs and to be more consistent with industry practices. We anticipate further review will result in additional recommendations for modifications to the user classifications and categories.

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 \$2,281,685 for operations, maintenance and capital improvements for the treatment and conveyance of Culver City wastewater. In fiscal year 2006/2007 they are requesting Culver City to pay \$3,329,900. This is a 46% increase. A letter was sent to Los Angeles to request justification for this increase, and the City of Los Angeles replied with several reasons for the increase of costs. Their letter states among other things that significant inflationary increases in Hyperion and sewage conveyance system capital costs and new Federal and State regulations have caused the higher projections.

3.0 Calculation of Annual Revenue Requirements

The City's operating and capital budget that should be recovered by the SUSC is divided into multiple sections. For fiscal year 2006/07 the projected proposed revenue requirement is determined as follows:

Operating Costs - City	\$2 538 198
Operating Costs – Hyperion	\$1 450 100
Debt Service	\$1 688,000
Capital Projects – City	\$2 321 000
<u>Capital Projects - Hyperion</u>	<u>\$1,879,700</u>

Total FY 2006/2007 Budget \$9,876,998

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 2007/08 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 2006-2007 the minimum required reserve fund is estimated to be \$10,271 000 and the available cash balance is projected to be \$16,657,470 However, with the increases projected by the City of Los Angeles in their January 26, 2006 5-year projection letter the City of Culver City will be losing on average approximately one million dollars per year over the next four years from the available cash balance even with a 10% increase per year during this same period for Culver City ratepayers It is anticipated that as part of the negotiations with the City of Los Angeles to reconcile the charges for the last four flow years, 2005-2006 inclusive, that the City of Culver City will recover some overcharges during this period Yet, these amounts are still uncertain at this time

Therefore, Staff recommends that the current SUSC billing formulas be increased by 10 percent to remain on-track with the rate-stabilization program Next year the City should consider extending the rate stabilization program to FY 2010/2011

Table 1

Sewer Enterprise Fund Five Year Estimated Cash Flow Projection
(FY 2006 2011)

	ACTUAL						TOTAL 2006-2011
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	
Beginning cash balance	19,588,000	18 656 510	16 738 512	15 719 358	14 737 053	14 118 552	0
Sewer User Service Charge ¹	7 199 000	7 918 900	8 710 790	9 581 869	10 540 056	11 594 061	48,345,676
Industrial Waste Inspection Fee ²	60 000	60 000	60 000	60 000	60 000	60 000	300,000
CC & LA Sewer Facility Charges ³	1 355 564	170 000	170 000	170 000	170 000	170 000	850,000
Interest Income	450 000	450 000	450 000	450 000	450 000	450 000	2,250,000
Total Revenue	9,064,564	8 239 000	9 390 790	10 261 869	11 220 056	12 274 061	51,385,776
Less Operating Costs							
Operating costs City	2 464,270	2 538 198	2 614 344	2 692 774	2 773 557	2 856 764	13,475,637
Operating costs Hyperion ⁴	961,296	1 450 100	1 507 300	1 552 300	1 598 800	1 130 900	7,239,400
Debt service	2 531 000	1 688 000	1 692 000	1 690 000	1 697 000	1 696 000	8,463,000
Industrial Waste Inspection Fee ²	60 000	60 000	60 000	60 000	60 000	60 000	300,000
LA Sewer Facility Charges	432 224	170 000	170 000	170 000	170 000	170 000	850,000
SUSC Refund Credits	116,875	50 000	50 000	50 000	50 000	50 000	250,000
Total Operating Expenditures	6,565,665	5 956 298	6 093 644	6 215 074	6 349 357	5 963 664	30,578,037
Capital Projects							
Capital expenditures City	2,110,000	2 321 000	2 553 100	2 808 400	3 089 300	3 398 200	14,170,000
Capital expenditures Hyperion ⁴	1,320,389	1 879 700	1 763 200	2 220 700	2 399 900	711 900	8,975,400
Total Capital Projects	3,430,389	4 200 700	4 316 300	5 029 100	5 489 200	4 110 100	23,145,400
Total Expenditures	9,996,054	10 156 998	10 409 944	11 244 174	11 838 557	10 073 764	53,723,437
Deficit of expenditure vs revenue	-931,490	-1 917 998	-1 019 154	-982 305	-618,501	2 200 297	
Cash Balance End of June	18,656,510	16 738 512	15 719 358	14 737 053	14 118 552	16 318 849	

1 Increased 10% /yr

2 Pass through costs

3 Building Permit

3%/yr increase

4 LA Charges

10%/yr increase

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 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 2005-06

Base Charge	+	Annual Water Usage	X	Return to Sewer Percentage	X	Rate for the Customer Class	=	SUSC
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The current SUSC billing formulas for fiscal year 2005-06 are listed on Table 2

Table 2
SUSC Current Billing Formulas for FY05/06

Fiscal Year 2005/06 Billing Formula for Sewer User Service Charge				
Base Charge				Commodity Charge
				(Per HCF Annual Flow)
Multi-Family	\$	34.97 per unit+		(0.85W x \$3.18)
Single Family	\$	34.97	+	(0.58W x \$3.18)
Group II Users	\$	34.97	+	(W x \$3.18)
Group III Users	\$	34.97	+	(W x \$6.31)
Group IV Users	\$	34.97	+	(W x \$3.10)
Group V Users	\$	34.97	+	(W x \$2.69)
Group VI Users Individual Special Users				
601	\$	34.97	+	(W x \$3.39)
602	\$	34.97	+	(W x \$4.42)
603	\$	34.97	+	(W x \$4.42)
604	\$	34.97	+	(W x \$3.10)
605	\$	34.97	+	(W x \$2.65)
606	\$	34.97	+	(W x \$4.42)
607	\$	34.97	+	(W x \$3.18)
609	\$	34.97	+	(W x \$3.18)
W=Annual Water Consumption				

6.0 Proposed SUSC Rates for 2006-07

Base Charge	+	Annual Water Usage	X	Return to Sewer Percentage	X	Rate for the Customer Class	=	SUSC
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The proposed SUSC billing formulas for fiscal year 2006-07 are listed in Table 3

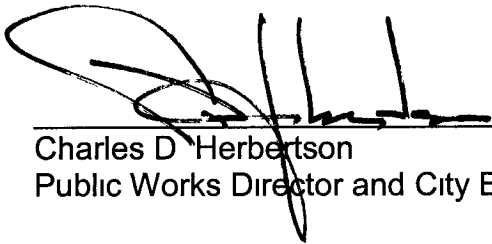
Table 3
Proposed SUSC Billing Formulas for FY06/07

Fiscal Year 2006/07 Billing Formula for Sewer User Service Charge				
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 In HCF				

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 2006/07 in order to meet the revenue requirements of the Sewer Enterprise and stay on-track with the City Council approved rate-stabilization program



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

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1 1 Upon the conclusion of the Public Hearing written protests filed and
2 not withdrawn did not represent property owners owning more than fifty percent (50%) of
3 the area of assessable lands within the Service Charge District

4 2 The City Council hereby approves the Engineer s Report and orders
5 the annual levy including a 10% increase of the Service Charge as shown and set forth
6 and described in the Report and the Resolution of Intention, No 2006-R034

7 3 The diagram and assessment as set forth and contained in the
8 Report are hereby confirmed and adopted by the City Council

9 4 The adoption of this Resolution constitutes ordering the levy
10 including a 10% increase of the assessment for the fiscal year commencing July 1 2006
11 and ending June 30, 2007

12 5 The estimates of costs, the assessment diagram, the assessments,
13 and all other matters as set forth in the Report pursuant to said Chapter 5 02 as
14 submitted, are hereby approved and adopted by the City Council

15 6 The assessment for improvements set forth in the Report and the
16 Resolution of Intention shall be performed pursuant to law and the County Auditor shall
17 enter on the County Assessment Roll the amount of the assessment and the
18 assessment shall then be collected at the same time and in the same manner as the
19 County property taxes are collected After collection by said County the net amount of
20 the assessment shall be paid to the City Treasurer of the City of Culver City

21 7 The City Treasurer has previously established a special fund known
22 as the "Fund for Sewer User's Service Charge" into which the City Treasurer shall place
23 all monies collected by the Tax Collector pursuant to the provisions of this Resolution and
24

law, and the transfer shall be made and accomplished as soon as the monies have been made available to the City Treasurer

8 The City Clerk is hereby ordered and directed to file a certified copy of the report and diagram, attached hereto as Exhibit "A", and the assessment roll with the County Auditor together with a certified copy of this Resolution upon its adoption

9 A certified copy of the report and diagram, attached hereto as Exhibit "A", and the assessment roll shall be filed in the Office of the City Engineer, with a duplicate copy on file in the Office of the City Clerk and shall be open for public inspection

APPROVED and ADOPTED this 26th day of June 2006

GARY SILBINGER, MAYOR
City of Culver City California

ATTEST

APPROVED AS TO FORM

CHRISTOPHER ARMENTA, City Clerk

CAROL A SCHWAB, City Attorney

PUBLIC WORKS DEPARTMENT
CITY OF CULVER CITY
PO BOX 507
9770 CULVER BOULEVARD
CULVER CITY CA 90232 0507

NOTIFICATION OF IMPORTANT CITY COUNCIL AGENDA ITEM
Public Hearing Assessment levy of Sewer Usage Service Charge

PUBLIC WORKS DEPARTMENT
CITY OF CULVER CITY
PO BOX 507
9770 CULVER BOULEVARD
CULVER CITY CA 90232 0507

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CULVER CITY CA 90232 0507

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Public Hearing Assessment levy of Sewer Usage Service Charge



**NOTIFICATION OF IMPORTANT
AGENDA ITEM AT A FUTURE
COUNCIL MEETING**

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

June 26 2006 Time 7 00 pm

**The City Council will conduct a
Public Hearing regarding the
Assessment Levy of the Sewer User
Service Charge**

For more information contact

Dan Garcia
Project Manager
310 253 5604

Location
City Hall

Mike Balkman Council Chambers
9770 Culver Boulevard
Culver City CA 90232

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