MEETING DATE 06/27/05

AGENDA ITEM Public Hearing and Adoption of a Resolution Confirming the City Engineer's Report and Adoption of Sewer User's Service Charges for Fiscal Year 2005/06

ATTACHMENTS

		Pages
1	City Engineer's Report for FY 2005/06	1 – 8
2	Resolution confirming the City Engineer's Report, which upon adoption shall constitute a charge against each sewer-using property within the City of Culver City for the Fiscal Year 2005/06 and shall be a special assessment and lien on each such property	9 – 11
3	Memorandum to City Council dated April 7, 2004	12 - 15

Culver CITY
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CHARLES D HERBERTSON
Public Works Director and
City Engineer

June 15 2005

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 2005-06

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 wastewater system operation and maintenance and Hyperion capital improvements 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 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 customers

2 0 Discussion

As indicated on a Memorandum to Council dated April 7, 2004, Public Works Staff terminated the contract with the Consultant that had been responsible for performing the financial analysis of the SUSC and the preparation of the Engineer's Report

Due to changes in the upper management in the Public Works department as well as the City Controller's office, combined with the fact that the City is in the process of reconciling its account with the City of Los Angeles Staff did not initiate any plans to change the structure of the current SUSC rates this 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 2005-2006 tax rolls Staff believes, based on the current Sewer Fund balances and the anticipated revenues and costs this approach will not jeopardize the solvency of the Fund and nor cause any negative impacts on the community

However, maintaining the current rate structure for another year will delay the updating process the City began in 2003 The Staff working with a new Consultant next year, will continue to review 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

In addition the discussion about converting from a rate of return to 'lowest water use billing period to determine residential estimated domestic verses landscape water consumption will not occur until next year The reason this issue cannot be addressed this year is because any change to this area will result in changes to the billing formulas and potentially lower the amount of revenue collected unless there is a corresponding adjustment in the charge for the amount of water consumed

At the conclusion of the reconciliation process with the City of Los Angeles Staff intends to issue a Request for Proposal for consultant services for assistance in the 2006-2007 annual sewer rate structure analysis In addition to consulting firms Staff will also contact the City of Los Angeles to explore what assistance their offices may be able to provide in developing/performing the rate structure analysis

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 2005/06 the projected proposed revenue requirement is determined as follows

Operating Costs - City	$2 694 270
Operating Costs – Hyperion	$ 997 500
Debt Service	$1 688,000
Capital Projects	$3,337,500
Total FY 2005/2006 Budget	$8,717,270

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 2005-2006 the minimum required reserve fund is estimated to be $10 479,339 and the available cash balance is projected to be $15,723,460, providing approximately $5 2 million above the minimum recommended reserve level

However it is expected that as part of the negotiations with the City of Los Angeles to reconcile the charges for the last four flow years 2004-2005 inclusive Culver City will have to pay approximately one million dollars to bring the account to a current status

Therefore Staff recommends that the current SUSC billing formulas be increased by 5 percent to remain on-track with the rate-stabilization program

Table 1

Sewer Enterprise Fund Five Year Estimated Cash Flow Projection (FY 2005-2009)

	2002/2003 ACTUAL	*2004/2005 ACTUAL*	*2005/2006*	*2006/2007*	*2007/2008*	*2008/2009*	*TOTAL*
Beginning cash balance	16,881,921	*16,430,000*	*16,515,730*	*15,723,460*	*15,322,962*	*15,170,818*	*16,430,000*
	-			-	-		
Sewer User Service Charge[1]	5 053 400	*6 900 000*	*7 245 000*	*7 534 800*	*7 534 800*	*7 534 800*	*36 749 400*
Industrial Waste Inspection Fee[2]	10 000	*60 000*	*60 000*	*60 000*	*60 000*	*60 000*	*300 000*
CC & LA Sewer Facility Charges[3]	50 000	*170 000*	*170 000*	*170 000*	*170 000*	*170 000*	*850 000*
Interest Income	600 000	*253 000*	*450 000*	*415 000*	*415 000*	*450 000*	*1 983 000*
Total Revenue	**5 713 400**	***7 383 000***	***7 925 000***	***8 179 800***	***8 179 800***	***8 214 800***	***39 882 800***
Less Operating Costs							
Operating costs City	3 150 608	*2 865 270*	*2 464 270*	*2 538 198*	*2 614 344*	*2 692 774*	*13 174 857*
Operating costs Hyperion[4]	675 184	*895 000*	*997 500*	*1 030 900*	*1 063 700*	*1 090 600*	*5 077 700*
Debt service	1 702 415	*1 692 000*	*1 688 000*	*1 692 000*	*1 690 000*	*1 696 000*	*8 458 000*
Industrial Waste Inspection Fee[2]	10 000	*60 000*	*60 000*	*60 000*	*60 000*	*60 000*	*300 000*
LA Sewer Facility Charges	50 000	*170 000*	*170 000*	*170 000*	*170 000*	*170 000*	*850 000*
Total Operating Expenditures	**5 588 207**	***5 682 270***	***5 379 770***	***5 491 098***	***5 598 044***	***5 709 374***	***27 860 557***
Capital Projects							
Capital expenditures City	1 300 000	*295 000*	*2 110 000*	*1 500 000*	*1 500 000*	*1 500 000*	*6 905 000*
Capital expenditures Hyperion[4]	1 406 157	*1 320 000*	*1 227 500*	*1 589 200*	*1 233 900*	*826 700*	*6 197 300*
Total Capital Projects	**2 706 157**	***1 615 000***	***3 337 500***	***3 089 200***	***2 733 900***	***2 326 700***	***13 102 300***
Total Expenditures	**8 234 364**	***7 297 270***	***8 717 270***	***8 580 298***	***8 331 944***	***8 036 074***	***40 962 857***
Cash Balance End of June	**14 300 957**	***16 515 730***	***15 723 460***	***15 322 962***	***15 170 818***	***15 349 543***	***15 349 543***

4 0 Summary of Current SUSC Rate Structure

The current SUSC Rate Structure is composed of the following two elements 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

Figure 1
Current Billing Formula

Base Charge	+	Annual Water Usage	X	Return to Sewer Percentage	X	Rate for the Customer Class	=	SUSC

Table 2 show a list of the 2004-05 SUSC billing formulas for all user classifications

Table 2
SUSC Billing Formula for FY04/05

Fiscal Year 2004/05 Billing Formula for Sewer User Service Charge					
		Base Charge			Commodity Charge (Per HCF Annual Flow)
Multi-Family		$	33 30 per unit	+	(0 85W x $3 03)
Single Family		$	33 30	+	(0 58W x $3 03)
Group II Users		$	33 30	+	(W x $3 03)
Group III Users		$	33 30	+	(W x $6 01)
Group IV Users		$	33 30	+	(W x $2 95)
Group V Users		$	33 30	+	(W x $2 56)
Group VI Users Individual Special Users					
	601	$	33 30	+	(W x $3 23)
	602	$	33 30	+	(W x $4 21)
	603	$	33 30	+	(W x $4 21)
	604	$	33 30	+	(W x $2 95)
	605	$	33 30	+	(W x $2 52)
	606	$	33 30	+	(W x $4 21)
	607	$	33 30	+	(W x $3 03)
	609	$	33 30	+	(W x $3 03)
	W=Annual Water Consumption				

5 0 Proposed SUSC Rates for 2005-06

The proposed SUSC billing formulas for fiscal year 2005-06 are based on the current ones adjusted by a 5 percent increase The updated formulas are listed on Table 3

Table 3
SUSC 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	$	36 63	+	(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 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 5 percent increase to the current SUSC billing formulas for fiscal year 2005/06 in order to meet the revenue requirements of the Sewer Enterprise and stay on-track with the City Council approved rate-stabilization program

RESOLUTION NO 2005-R

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CULVER CITY, CALIFORNIA ESTABLISHING AND LEVYING A SEWER USER S CHARGE RATE FOR THE FISCAL YEAR 2005-2006

WHEREAS, Section 5 02 035 A of the Municipal Code (Code) of the City of Culver City (City) California, provides that the City Council by resolution shall establish a system of sewer user s service charges which shall provide that the owner of each parcel of property in the City shall pay a proportionate share of the costs for operation, maintenance repair and capital improvements of the City sewerage system and

WHEREAS, pursuant to Section 5 02 035 B of the Code, the City Engineer, has filed with the City Clerk the City Engineer's Report which sets forth the amount of money necessary to pay the sewerage system costs and the proportionate share of the cost to be borne by each parcel of property in the City and

WHEREAS, the City Clerk, pursuant to such section has had published, in a newspaper generally circulated within Culver City and designated by the City Council notice of the time and place of a public hearing before the City Council and notice that the purpose of the hearing is to allow any interested person to comment on or protest the rate and amount for the 2005-2006 Fiscal Year Sewer User s Service Charges to be billed and payable as part of the real property tax bill and a notice has been mailed to each property owner within the City, and

WHEREAS, on June 27, 2005 at 7 00 p m a public hearing was so opened by the City Council, at which time all interested persons were given an opportunity to be heard, and

WHEREAS, at the conclusion of the public hearing, the City Council confirmed the Engineer s Report together with the Wastewater Lien Masterfile Listing Computer Tape which Masterfile tape accurately reflects the Engineer s Report

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

1 Upon conclusion of the public hearing, written protests filed and not withdrawn did not represent property owners owing more than ten percent (10%) of the parcels to be charged and the City Council does hereby overrule all protest both written and oral to the levy of the 2005-2006 Fiscal Year Sewer User s Service Charges and the collection thereof on the County property tax roll

2 The City Council hereby approves and confirms the Engineer's Report and the Masterfile tape and orders the annual levy of the Sewer User s Service Charges on each parcel of property as shown and set forth on the Masterfile tape, which accurately reflects said Engineer s Report

3 The adoption of this resolution constitutes the levy of the Sewer User s Service Charges for the Fiscal Year commencing July 1, 2005, and ending June 30 2006

4 The County Auditor shall enter on the County assessment roll the amount of the charges on each parcel and said shall then be collected at the same time and in the same manner as County property taxes are collected After collection the net amount of the charges shall be paid to the City Treasurer of Culver City and said amount shall be placed in the Sewer Construction and Maintenance Fund

5 The City Clerk is hereby ordered and directed to file a certified copy of the Masterfile tape together with a certified copy of this resolution with the Los Angeles County Auditor

6 A certified copy of the Engineer s Report and the Masterfile tape shall be kept on file under the control of the City Clerk at all times, and shall be available for public inspection

APPROVED and ADOPTED this _____ day of __________ 2005

____
ALBERT VERA, MAYOR
City of Culver City, California

ATTEST

APPROVED AS TO FORM

____
CHRISTOPHER ARMENTA City Clerk

____
CAROL A SCHWAB, City Attorney

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