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ENGINEER'S REPORT

ON THE ANNUAL LEVY

2018-2019

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 May 23, 2018

PRESENTED to the City Council
and APPROVED by Resolution
No. 2018-R____, adopted by said
City Council on May 29, 2018
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 2018-19

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.

For Fiscal Year 2016/17 no rate increase was proposed or approved.

For Fiscal Year 2017/18, the City Council approved a rate increase of 2.7% based on the Bureau of Labor Statistics February Consumer Price Index for All Urban Consumers for the Los Angeles – Riverside - Orange County area for the prior 12-month period ending February 2017 for Fiscal Year 2017/2018.

The recommended targets for reserve balances are the addition of the following items:

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 2016/17 CAFR, plus capital asset additions and annual depreciation adjustments, it is estimated that the City's Net Asset value is approximately \$38.5 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 \$3.2 million. The projected cash balance for 2018/19 is approximately \$3.2 million.

	2012/2013	2013/2014 actual	2014/2015 actual	2015/2016 actual	2016/2017 actual	2017/2018 estimate	2018/2019 estimate
Beginning unreserved cash balance	17,190,264	14,161,098	14,633,409	15,118,408	8,112,007	8,583,529	5,891,385
Sewer User Service Charge	7,231,008	8,265,642	8,541,072	8,959,659	8,530,040	8,736,267	9,050,000
Interest Income	244,650	20,768	111,561	120,974	125,785	100,000	25,000
Sewer Facility Fee - CC Only	249,087	381,845	181,058	504,246	176,295	557,789	200,000
Total Revenue	7,475,658	8,668,255	8,833,691	9,584,879	8,832,120	9,394,056	9,275,000
Less: Operating Costs							
Salaries and Benefits	1,121,190	1,305,864	1,345,437	1,282,294	1,288,503	1,407,000	1,643,300
Admin., insurance, rent, contractual svcs	1,803,434	2,184,880	2,043,055	2,010,756	1,960,395	2,000,000	2,380,000
L.A. Hyperion	962,500	1,200,000	1,340,000	1,421,515	1,182,500	1,587,000	1,555,000
Bond Debt Service	1,605,200	1,605,200	1,605,200	1,605,200	1,605,200	1,605,200	1,605,200
Total Operating Expenditures	5,492,324	6,295,944	6,333,692	6,319,765	6,036,598	6,599,200	7,183,500
Less: Capital Projects							
Culver City	4,050,000	700,000	675,000	8,850,000	1,141,500	3,900,000	3,200,000
L. A. Hyperion	962,500	1,200,000	1,340,000	1,421,515	1,182,500	1,587,000	1,555,000
Total Capital Projects	5,012,500	1,900,000	2,015,000	10,271,515	2,324,000	5,487,000	4,755,000
Total Expenditures	10,504,824	8,195,944	8,348,692	16,591,280	8,360,598	12,086,200	11,938,500
Operating Surplus/Deficit	-3,029,166	472,311	484,999	-7,006,401	471,522	-2,692,144	-2,663,500
Cash Balance- End of June	14,161,098	14,633,409	15,118,408	8,112,007	8,583,529	5,891,385	3,227,885

3.0 Recommendation

The rates are proposed to increase 3.6% based on the Bureau of Labor Statistics February Consumer Price Index for All Urban Consumers for the Los Angeles area for the prior 12-month period ending February 2018 for Fiscal Year 2018/2019. The amount of this increase is about \$314,505.

For the Fiscal Year 2017/18 rate increase, during the 45 day public notification period, an error was discovered in the Engineer's Report and Public Notice of the proposed sewer charges. The base charge for the multi-family code was not increased by the CPI of 2.7%. The loss of the sewer charge revenue was about \$63,343. There was not enough time to revise the Engineer's Report and conduct another 45 day Public Notice in order to meet the County Assessor's due date of August 10, 2017, for submission of charges. Therefore Staff proposed to the City Council at the Public Hearing on July 24, 2017, that the base charge for multi-family for Fiscal Year 2018/19 will be increased to compensate for the lack of increase in Fiscal Year 2017/18. This is reflected in the table below.

The following table are the proposed service charge rates for Fiscal Year 2018/2019:

Customer Class Code	Base Charge	Commodity Rate
101 Single Family ¹	\$292.38 +	(0.58W x \$1.33)
102 Multi-Family ²	\$234.52 +	(0.85W x \$1.33)
200 Commercial/Business:	\$292.38 +	(W x \$3.79)
300 Commercial/Restaurants:	\$292.38 +	(W x \$7.52)
400 Institutional:	\$292.38 +	(W x \$4.00)
500 School/Public:	\$292.38 +	(W x \$3.08)
600 Special Users (Description in Engineer's Report)		
601	\$ 292.38 +	(W x \$4.33)
602	\$ 292.38 +	(W x \$5.73)
603	\$ 292.38 +	(W x \$5.74)
604	\$ 292.38 +	(W x \$4.02)
605	\$ 292.38 +	(W x \$3.41)
606	\$ 292.38 +	(W x \$5.75)
607	NOT USED	NOT USED
608	\$ 292.38 +	(W x \$4.45)
609	NOT USED	NOT USED
610	NOT USED +	NOT USED
611	NOT USED	NOT USED
612	\$ 143.51 +	(W x \$0)
613	\$ 292.38 +	(W X \$0.27)
614	\$ 292.38 +	(W x \$3.22)
615	\$ 292.38 +	(W x \$4.42)
W=Annual Water Consumption in HCF		
¹ Base charge is per parcel		
² Base charge is per dwelling unit		

601 – 6000 Sepulveda Boulevard – Westfield Mall
602 – 6333 Bristol Parkway
603 – 5992 Green Valley Circle
604 – Southern California Hospital
605 – Sony Studios
606 – 6161 Centinela Avenue
607 – Not used
608 – 4065 Jackson Avenue – 50% of Code 101 + 50% of Code 300
609 – Not used
610 – Not used
611 – Not used
612 – Nurseries
613 – 10121 Jefferson Boulevard #4904651 – 10% of Code 200
614 – 10555 Jefferson Boulevard – 85% of Code 200
615 – 10824 Venice Boulevard – 20% of Code 300 + 80% Code 200

Continue to use Los Angeles Auditor-Controller property tax roll for SUSC billing purposes for FY 2018-2019 as it eliminates costly billing systems, additional staff, and minimizes bad debt.