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ENGINEER'S REPORT

ON THE ANNUAL LEVY

2020-2021

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 20, 2020

PRESENTED to the City Council
and APPROVED by Resolution
No. 2019-R____, adopted by said
City Council on May 26, 2020
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 2020-21

 5/20/20
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.

For Fiscal Year 2018/19 the City Council approved a rate increase of 3.6% 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 2018 for Fiscal Year 2018/2019.

For Fiscal Year 2019/20 the City Council approved a rate increase of 2.5% based on the Bureau of Labor Statistics February Consumer Price Index for the Los Angeles area for the prior 12-month period ending February 2019.

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, which comes to \$1.85M in FY 2020/2021.
2. Capital Rehabilitation and Replacement Reserve – 3% of system net assets. The net assets is based on the FY 2018/2019 CAFR, plus capital asset additions and annual depreciation adjustments, it is estimated that the City's Net Asset value is approximately \$42.8 million and 3% is \$1.28M.
3. Debt Reserve – the maximum annual debt service payment, as specified by the bond covenants (\$1.28M).

These recommended targets for reserve balances equates to approximately \$4.41M. The projected available operating cash balance for FY 2020/2021 is approximately \$12.6M.

	2018/2019	2019/2020	2020/2021
	actual	estimate	proposed budget
Beginning unreserved cash balance	5,730,494	3,546,504	12,105,576
Sewer - Operating	9,133,129	9,225,000	9,600,000
Interest Income	287,499	135,000	204,000
Sewer Facility - CC	1,066,766	600,000	200,000
Misc. Revenue	1,057,476	535,000	335,000
Total Revenue	11,544,870	10,495,000	10,339,000
Less: Operating Costs			
Salaries and Benefits	1,308,759	1,213,023	1,725,213
Other Culver City Operating Costs	2,459,078	2,260,604	2,593,085
L.A. Hyperion	1,294,000	1,727,698	1,800,000
Bond Debt Service	1,588,050	815,418	1,281,175
Total Operating Exp (CAFR less Depreciation)	6,649,887	6,016,743	7,399,473
Less: Capital Projects			
Culver City (Appropriated)	5,784,973	6,191,487	625,000
L.A. Hyperion	1,294,000	1,727,698	1,800,000
Total Capital Projects	7,078,973	7,919,185	2,425,000
Total Expenses	13,728,860	13,935,928	9,824,473
Operating Surplus/Deficit	(2,183,990)	(3,440,928)	514,527
Additional Operating Cash*		12,000,000	
Cash Balance-End of June (Net of appropriated City Capital Projects)	3,546,504	12,105,576	12,620,103

*In FY 2019/2020 the 2009 Sewer Bond was refunded and \$12M in Bond proceeds was received for committed CIP projects. Cash on hand of \$12M can now be used for operating cost vs. budgeted CIP projects.

3.0 Recommendation

The rates are proposed to remain the same for Fiscal Year 2020/2021. The following table are the proposed sewer user's service charge rates for Fiscal Year 2020/2021:

Customer Class Code	Base Charge	Commodity Rate
101 Single Family ¹	\$299.69 +	(0.58W x \$1.36)
102 Multi-Family ²	\$240.38 +	(0.85W x \$1.36)
200 Commercial/Business:	\$299.69 +	(W x \$3.88)
300 Commercial/Restaurants:	\$299.69 +	(W x \$7.71)
400 Institutional:	\$299.69 +	(W x \$4.10)
500 School/Public:	\$299.69 +	(W x \$3.16)
600 Special Users (Description in Engineer's Report)		
601	\$ 299.69 +	(W x \$4.55)
602	\$ 299.69 +	(W x \$6.03)
603	\$ 299.69 +	(W x \$6.04)
604	\$ 299.69 +	(W x \$4.22)
605	\$ 299.69 +	(W x \$3.59)
606	\$ 299.69 +	(W x \$6.06)
607	NOT USED	NOT USED
608	\$ 299.69 +	(W x \$4.69)
609	NOT USED	NOT USED
610	NOT USED +	NOT USED
611	NOT USED	NOT USED
612	\$ 151.06 +	(W x \$0)
613	\$ 299.69 +	(W X \$0.39)
614	\$ 299.69 +	(W x \$3.29)
615	\$ 299.69 +	(W x \$4.66)
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 2020-2021 as it eliminates costly billing systems, additional staff, and minimizes bad debt.