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ENGINEER'S REPORT

ON THE ANNUAL LEVY

2022-2023

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 July 6,, 2022

PRESENTED to the City Council
and APPROVED by Resolution
No. 2022-R____, adopted by said
City Council on July 11, 2022
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: Yanni Demitri, Public Works Director and City Engineer

CITY ENGINEER'S REPORT FOR SEWER USER'S SERVICE CHARGES FOR FISCAL YEAR 2022-23

Yanni Demitri, P.E. RCE 63388
Public Works Director / 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 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.

In September 2019, the City Council adopted a Resolution authorizing the issuance of Wastewater Facilities Revenue Bonds, 2019 Series A (the “2019 Bonds”) to refinance the outstanding \$12.31 million in 2009 Wastewater Facilities Revenues Bonds and finance up to \$12 million for capital improvement costs related to the City’s Wastewater System. The \$12 million for capital improvement costs were utilized for the new Bankfield Sewer Pump Station and Sewer Diversion pipeline project (that decommissioned the Overland and Mesmer Sewer Pump Stations).

For Fiscal Year 2020/21 the City Council, due to the severe impacts to both individuals and businesses caused by the COVID-19 pandemic, there was no rate increase proposed.

For Fiscal Year 2021/22, staff did not propose a rate increase due to sufficient cash balance.

The required reserve balance is \$1.6 million per the sewer bond covenants and is in a separate account and not part of the following sewer cash expenditure table.

	FY 2020/2021	FY 2021/2022	FY 2022/2023
	Actual	Estimate	Proposed Budget
Beginning unreserved cash balance	29,384,128	25,284,309	18,879,957
Sewer - Operating	9,667,290	8,555,000	9,000,000
Interest Income	258,791	204,000	204,000
Sewer Facility - CC	156,380	200,000	240,000
Misc. Revenue	287,635	335,000	375,000
Total Revenue	10,370,096	9,294,000	9,819,000
Less: Operating Costs			
Salaries and Benefits	1,167,857	1,659,210	1,647,931
Other Culver City Operating Costs	2,267,153	2,600,428	2,487,121
L.A. Hyperion (1/2)	1,354,805	1,375,000	1,800,000
Bond Debt Service	1,158,778	1,575,000	1,605,075
Total Operating Exp (Less Depreciation)	5,948,593	7,209,638	7,540,127
Capital Projects			
Culver City (Appropriated FY 2020/2021&FY2021/2022)	7,166,516	7,113,714	3,675,000
L.A. Hyperion	1,354,805	1,375,000	1,800,000
Total Capital Projects	8,521,321	8,488,714	5,475,000
Total Expenses	14,469,914	15,698,352	13,015,127
Net Surplus/Deficit	(4,099,819)	(6,404,352)	(3,196,127)
Cash Balance-End of June	25,284,309	18,879,957	15,683,830

*In FY 2019/2020 the 2009 Sewer Bond was refunded and \$12M in Bond proceeds was received for committed CIP projects.

On April 11, 2022, the City Council approved a professional services agreement with NBS Government Finance Group, to prepare a five (5) year sewer user's service charges rate study. The study is currently underway and will be completed later this year.

3.0 Recommendation

Due to sufficient reserves in the amount of \$15,683,830, the rates are proposed to remain the same for Fiscal Year 2022/2023 as shown in the following table:.

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 2022-2023 as it eliminates costly billing systems, additional staff, and minimizes bad debt.