



**CHARLES D. HERBERTSON**  
Public Works Director/City Engineer



PUBLIC WORKS DEPARTMENT  
9770 CULVER BOULEVARD, 2ND FLOOR  
CULVER CITY, CALIFORNIA 90232-0507



Phone (310) 253-5600  
FAX (310) 253-5626

**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  
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and thereafter filed in the  
Office of the City Clerk

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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**

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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<br>actual | 2014/2015<br>actual | 2015/2016<br>actual | 2016/2017<br>actual | 2017/2018<br>estimate | 2018/2019<br>estimate |
|---|-------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <b>Beginning unreserved cash balance</b>  | <b>17,190,264</b> | <b>14,161,098</b>   | <b>14,633,409</b>   | <b>15,118,408</b>   | <b>8,112,007</b>    | <b>8,583,529</b>      | <b>5,891,385</b>      |
| 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               |
| <b>Total Revenue</b>                      | <b>7,475,658</b>  | <b>8,668,255</b>    | <b>8,833,691</b>    | <b>9,584,879</b>    | <b>8,832,120</b>    | <b>9,394,056</b>      | <b>9,275,000</b>      |
| <b>Less: Operating Costs</b>              |                   |                     |                     |                     |                     |                       |                       |
| 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             |
| <b>Total Operating Expenditures</b>       | <b>5,492,324</b>  | <b>6,295,944</b>    | <b>6,333,692</b>    | <b>6,319,765</b>    | <b>6,036,598</b>    | <b>6,599,200</b>      | <b>7,183,500</b>      |
| <b>Less: Capital Projects</b>             |                   |                     |                     |                     |                     |                       |                       |
| 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             |
| <b>Total Capital Projects</b>             | <b>5,012,500</b>  | <b>1,900,000</b>    | <b>2,015,000</b>    | <b>10,271,515</b>   | <b>2,324,000</b>    | <b>5,487,000</b>      | <b>4,755,000</b>      |
| <b>Total Expenditures</b>                 | <b>10,504,824</b> | <b>8,195,944</b>    | <b>8,348,692</b>    | <b>16,591,280</b>   | <b>8,360,598</b>    | <b>12,086,200</b>     | <b>11,938,500</b>     |
| Operating Surplus/Deficit                 | -3,029,166        | 472,311             | 484,999             | -7,006,401          | 471,522             | -2,692,144            | -2,663,500            |
| <b>Cash Balance- End of June</b>          | <b>14,161,098</b> | <b>14,633,409</b>   | <b>15,118,408</b>   | <b>8,112,007</b>    | <b>8,583,529</b>    | <b>5,891,385</b>      | <b>3,227,885</b>      |

### 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 <sup>1</sup>                       | \$292.38 +  | (0.58W x \$1.33) |
| 102 Multi-Family <sup>2</sup>                        | \$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                    |             |                  |
| <sup>1</sup> Base charge is per parcel               |             |                  |
| <sup>2</sup> 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.