

**REPORT TO THE
CITY COUNCIL**
City of Salinas, California

Agenda Item Number

DATE: November 15, 2011

FROM: Matt N. Pressey, Finance Director

SUBJECT: **SANITARY SEWER RATE STUDY AND RATE REVISIONS**

Department Director Approval

Finance Director Review

City Attorney Review

City Manager Approval

RECOMMENDATION:

It is recommended that the City Council:

1. Receive the Wastewater Financial Plan and Rate Study prepared by Camp Dresser & McKee, Inc. (CDM); and
2. Adopt a Resolution of Intention to modify sanitary sewer rates and set the public hearing date.

DISCUSSION:

The Sanitary Sewer Enterprise Fund currently serves 31,490 customers in and around the City. The Monterey Regional Water Pollution Control Agency (MRWPCA) collects all of the City's sanitary sewer flows and treats the sewage. The City operates and maintains the entire sewer infrastructure within the City. MRWPCA bills each customer in the City for their services, which includes treatment and also bills for the City's services of conveyance (flows through the City system). The proposed revisions to the City rates are due to a change in methodology that is more equitable among customer categories.

The attached Wastewater Financial Plan and Rate Study was prepared by CDM, the same consultant who prepared the City's sewer master plan. The purpose of the Wastewater Financial Plan and Rate Study (Rate Study) is to determine the annual rate-based revenue requirements of providing sanitary sewer collection services to its customers. Proposition 218 restricts the total revenues to those required to fund the utility, including operation and maintenance costs (O&M), funding of capital improvements and replacements, and maintaining appropriate reserves for utility working capital, project contingencies, and net revenue stabilization. A financial model was developed that forecasts revenues and O&M costs over a 10-year period. The net operating revenues (operating revenues less operational expenses) are used to fund capital improvements.

Table 3 of the Rate Study develops equitable sewer service charges based on the City's costs of delivering services to the residents and businesses of the community. The table provides the current Equivalent Dwelling Unit (EDU) based billing units under the City's current billing method using the MRWPCA's charges, and a more equitable City sewer service charge for service using solely sewage flow-based rates. MRWPCA costs of service include transport from collection system (interceptor), treatment (secondary and tertiary) and disposal of treated wastewater. As such, their sewer service rates are based on three cost factors: (1) contributing sewage flow measured in million gallons per day

(MGD); (2) sewage strength of biochemical oxygen demand (BOD); and (3) sewage strength of suspended solids (SS).

Per Salinas City Code § 36-20.5, the current City sanitary sewer rate is set to 35 percent of the MRWPCA flow and strength-base rate. For residential users, this equates to \$4.46 per month, equaling 35 percent of MRWPCA rate of \$12.75 per month. In contrast, equitable sanitary sewer service charges are based on a 189 gallon per day (GPD) of sewage flow. Table 3 lists MRWPCA-provided sewage flows for each customer class discharging sewerage. The City’s flow-only sewer service rate is based on one residential dwelling unit equaling 1.0 EDU. When the current and updated charges are contrasted, the residential charge of 1.0 EDU is unchanged, while the rate for all other customers is based solely on flow rather than the current MRWPCA-based flow and strengthbase charges. The result is that Salinas’s restaurants, which were previously charged (in part) for sewage strengths, have a 41 percent reduction in their charges, while low-strength customers such as churches and gyms have a 47 percent increase. Commercial discharges with sewage strengths similar to residential customers, such as Bed & Breakfast Inns, will have almost no change.

Table 3
Customer Cost of Service Loads

Fee code	User Category	MRWPCA Billing Unit Description	FY 11/12 MRWPCA Rate (\$ per month)	Salinas Current Flow & Strength Billing Rates (SFD = 1.0)	Sewage Flow per Unit (2010 actual from MRWPCA, GPD)	Salinas Flow-based EDUs per Billing Unit (1.0 = 189 GPD, a)	Change for Equity
001	Business/Government (Per 10 employees in groups of 10)	Location/Each licensed business	\$8.70	0.7	146	0.8	13%
002	Business/Government (11-20 employees)	Location/Each licensed business	\$17.40	1.4	292	1.5	13%
003	Business/Government (21-30 Employees)	Location/Each licensed business	\$26.10	2.0	438	2.3	13%
004	Business/Government (31-40 employees)	Location/Each licensed business	\$34.80	2.7	584	3.1	13%
005	Business/Government (41-50 employees)	Location/Each licensed business	\$43.50	3.4	730	3.9	13%
006	Business/Government (51-60 employees)	Location/Each licensed business	\$52.20	4.1	876	4.6	13%
007	Business/Government (61-70 employees)	Location/Each licensed business	\$60.90	4.8	1,022	5.4	13%
008	Business/Government (71-80 employees)	Location/Each licensed business	\$69.60	5.5	1,168	6.2	13%
009	Business/Government (81-90 employees)	Location/Each licensed business	\$78.30	6.1	1,314	7.0	13%
010	Business/Government (91- 100 employees)	Location/Each licensed business	\$87.00	6.8	1,460	7.7	13%
011	Business/Government (101- 110 employees)	Location/Each licensed business	\$95.70	7.5	1,606	8.5	13%
012	Business/Government (111- 120 employees)	Location/Each licensed business	\$104.40	8.2	1,752	9.3	13%
013	Business/Government (121- 130 employees)	Location/Each licensed business	\$113.10	8.9	1,898	10.0	13%
014	Business/Government (131- 140 employees)	Location/Each licensed business	\$121.80	9.6	2,044	10.8	13%
015	Business/Government (141- 150 employees)	Location/Each licensed business	\$130.50	10.2	2,190	11.6	13%
016	Business/Government (151- 160 employees)	Location/Each licensed business	\$139.20	10.9	2,336	12.4	13%
018	Business/Government (171- 180 employees)	Location/Each licensed business	\$156.60	12.3	2,628	13.9	13%
019	Business/Government (181- 190 employees)	Location/Each licensed business	\$165.30	13.0	2,774	14.7	13%
021	Business/Government (201- 210 employees)	Location/Each licensed business	\$182.70	14.3	3,066	16.2	13%
022	Business/Government (210 - 220 employees)	Location/Each licensed business	\$191.40	15.0	3,212	17.0	13%
028	Business/Government (271- 280 employees)	Location/Each licensed business	\$243.60	19.1	4,088	21.6	13%
030	Business/Government (291- 300 employees)	Location/Each licensed business	\$261.00	20.5	4,380	23.2	13%
035	Business/Government (341- 350 employees)	Location/Each licensed business	\$304.50	23.9	5,110	27.0	13%
042	Business/Government (411- 420 employees)	Location/Each licensed business	\$365.40	28.7	6,132	32.4	13%
044	Business/Government (431- 440 employees)	Location/Each licensed business	\$382.80	30.0	6,424	34.0	13%
053	Business/Government (521 - 530 employees)	Location/Each licensed business	\$461.10	36.2	7,738	40.9	13%
070	Business/Government (691 -700 employees)	Location/Each licensed business	\$609.00	47.8	10,220	54.1	13%
099	Business/Government (981 -990 employees)	Location/Each licensed business	\$861.30	67.6	14,454	76.5	13%
ST	Business/Government User Cat. Subtotal	Charge per 10 Employee Groups	\$8.70	0.7	146	0.8	13%
101	Residence - vacant	Account	\$7.65	0.6	na	0.2	-67%
102	Residence	Each living unit	\$12.75	1.0	189	1.0	0%
105	Multi Residence - Apts	Each living unit	\$12.75	1.0	189	1.0	0%
106	Multi Residence - Vacant Apt	Each living unit	\$12.75	1.0	na	0.2	-80%
107	Condominium	Each living unit	\$12.75	1.0	189	1.0	0%
109	Retirement Complex	Each living unit	\$12.75	1.0	189	1.0	0%
211	Business - vacant	Account	\$6.65	0.5	na	0.2	-62%
221	Motel/Hotel	Each room	\$5.30	0.4	82	0.4	4%
222	Bed & Breakfast Inn	Each room	\$3.55	0.3	54	0.3	3%
231	Supermarket	Location	\$86.15	6.8	797	4.2	-38%
241	Medical Office	Each licensed physician	\$11.15	0.9	195	1.0	18%
242	Dental Office	Each licensed dentist	\$15.10	1.2	269	1.4	20%
243	Rest Home/Convalescent	Each bed of licensed capacity	\$3.30	0.3	54	0.3	10%
244	General Hospital	Each bed of licensed capacity	\$19.55	1.5	320	1.7	10%
245	Animal Hospital	Each bed of licensed capacity	\$22.90	1.8	365	1.9	8%
261	Restaurant - One Meal	Each restaurant seat	\$0.80	0.1	7	0.0	-41%
262	Restaurant - Two Meals	Each restaurant seat	\$1.25	0.1	11	0.1	-41%

Table 3. (Continued)
Customer Cost of Service Loads

Fee code	User Category	MRWPCA Billing Unit Description	FY 11/12 MRWPCA Rate (\$ per month)	Salinas Current Flow & Strength Billing Rates (SFD = 1.0)	Sewage Flow per Unit (2010 actual from MRWPCA, GPD)	Salinas Flow-based EDUs per Billing Unit (1.0 = 189 GPD, a)	Change for Equity
263	Restaurant - Three Meals	Each restaurant seat	\$2.40	0.2	21	0.1	-41%
264	Restaurant w/Bar	Each restaurant seat	\$2.40	0.2	21	0.1	-41%
265	Bar	Location/Each licensed business	\$19.75	1.5	317	1.7	8%
266	Nightclub	Location/Each licensed business	\$57.70	4.5	950	5.0	11%
267	Takeout Food - Small	Location/Each licensed business	\$27.15	2.1	354	1.9	-12%
268	Takeout Food – Medium	Location/Each licensed business	\$69.75	5.5	871	4.6	-16%
269	Takeout Food – Large	Location/Each licensed business	\$122.60	9.6	1,588	8.4	-13%
270	Bakery	Location/Each licensed business	\$33.55	2.6	287	1.5	-42%
281	Theatre	Location/Each licensed business	\$27.00	2.1	471	2.5	18%
282	Bowling Center	Location/Each licensed business	\$81.00	6.4	1,433	7.6	19%
283	Gym - 500 Members	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
288	Gym - 3000 Members	Location/Each licensed business	\$52.20	4.1	1,134	6.0	47%
289	Gym - 3500 Members	Location/Each licensed business	\$60.90	4.8	1,323	7.0	47%
290	Mortuary	Location/Each licensed business	\$42.20	3.3	387	2.0	-38%
291	School - Minimum	Account	\$8.70	0.7	na	0.2	-71%
292	School - Pre-Grade 6	School population	\$0.10	0.0	2	0.0	35%
293	School - Grade 7 - College	School population	\$0.20	0.0	4	0.0	35%
294	School - Boarding	School population	\$2.55	0.2	40	0.2	6%
295	Instructional Facility	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
296	Church - Small	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
297	Church - Large	Location/Each licensed business	\$17.40	1.4	378	2.0	47%
301	Photo - Developer	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
311	Laboratory - 10 Empl	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
321	Printer - 10 Empl	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
323	Printer - 30 Empl	Location/Each licensed business	\$26.10	2.0	567	3.0	47%
324	Printer - 40 Empl	Location/Each licensed business	\$34.80	2.7	756	4.0	47%
331	Garage/Repair	Location/Each licensed business	\$9.25	0.7	140	1.0	38%
341	Paint Shop - 10 Empl	Location/Each licensed business	\$8.70	0.7	189	1.0	47%
342	Paint Shop - 20 Empl	Location/Each licensed business	\$17.90	1.4	378	2.0	42%
344	Paint Shop - 40 Empl	Location/Each licensed business	\$34.80	2.7	756	4.0	47%
351	Industrial Laundry	Billed Account	\$5,000	392.2	76,885 est.	406.8	4%
352	Commercial Laundry	Billed Account	\$120	9.4	1,845 est.	9.8	4%
353	Dry Cleaner	Location/Each licensed business	\$28	2.2	483	2.6	17%
354	Laundromat	Each washing machine	\$7	0.5	127	0.7	22%
366	Car Wash	Billed Account	\$158	12.4	2,424 est.	12.8	4%
367	Truck/Bus Wash	Billed Account	\$100	7.8	1,538 est.	8.1	4%
401	Special User	Billed Account	\$625	49.0	9,611 est.	50.8	4%
403	Chemicals/Pesticides	Billed Account	\$180	14.1	2,768 est.	14.6	4%
405	Water Softener	Billed Account	\$1,190	93.3	18,299 est.	96.8	4%
406	Food Processor	Billed Account	\$625	49.0	9,611 est.	50.8	4%
407	Rec/Sports Facility	Billed Account	\$150	11.8	2,307 est.	12.2	4%
408	Inedible Renderer	Billed Account	\$3,200	251.0	49,206 est.	260.4	4%
410	Ground Water Discharger	Billed Account	\$283	22.2	4,357 est.	23.1	4%

a. EDU: Equivalent Dwelling Unit representing one single family dwelling with 189 gallons per day (GPD) of sewage flow. Sewage flows for customer categories 351,352, 366-410 are estimated.

Table 4 of the Rate Study summarizes the updated rate structure in EDUs per billing unit and the billing units per customer class. Figure 5 illustrates these billing units by customer class; as shown the biggest customers are residences, followed by other businesses.

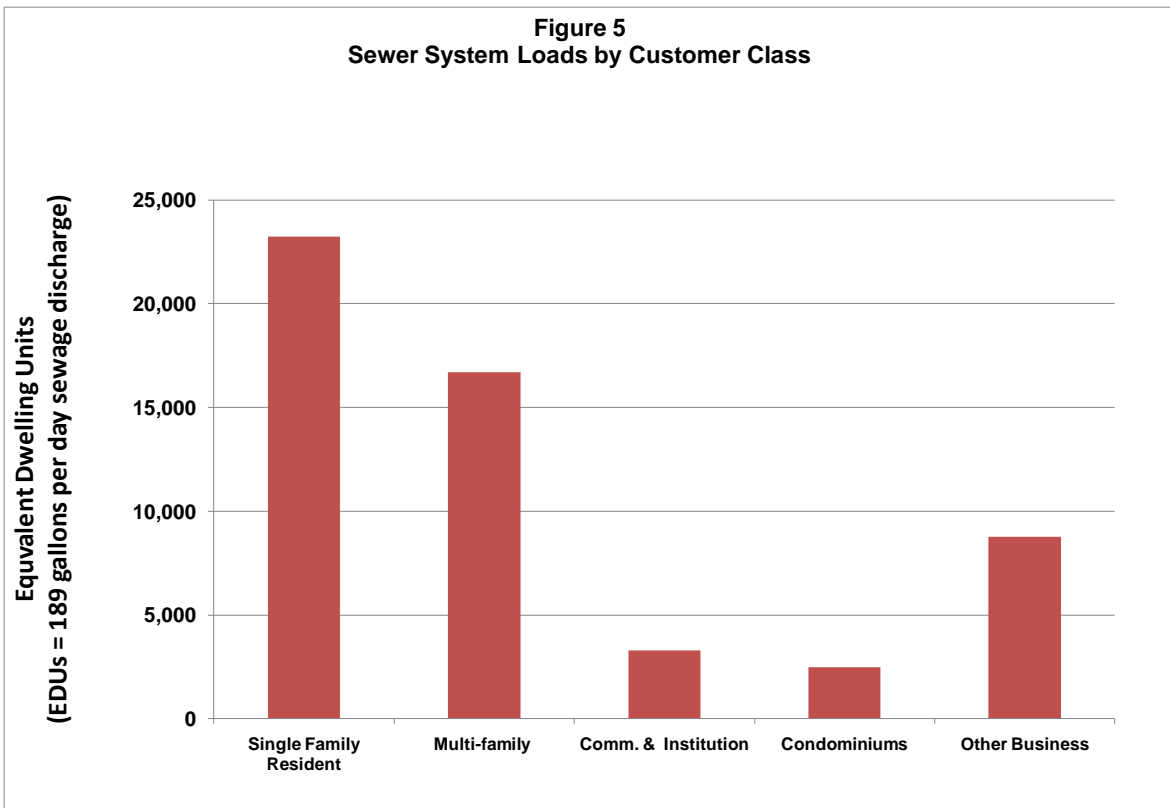
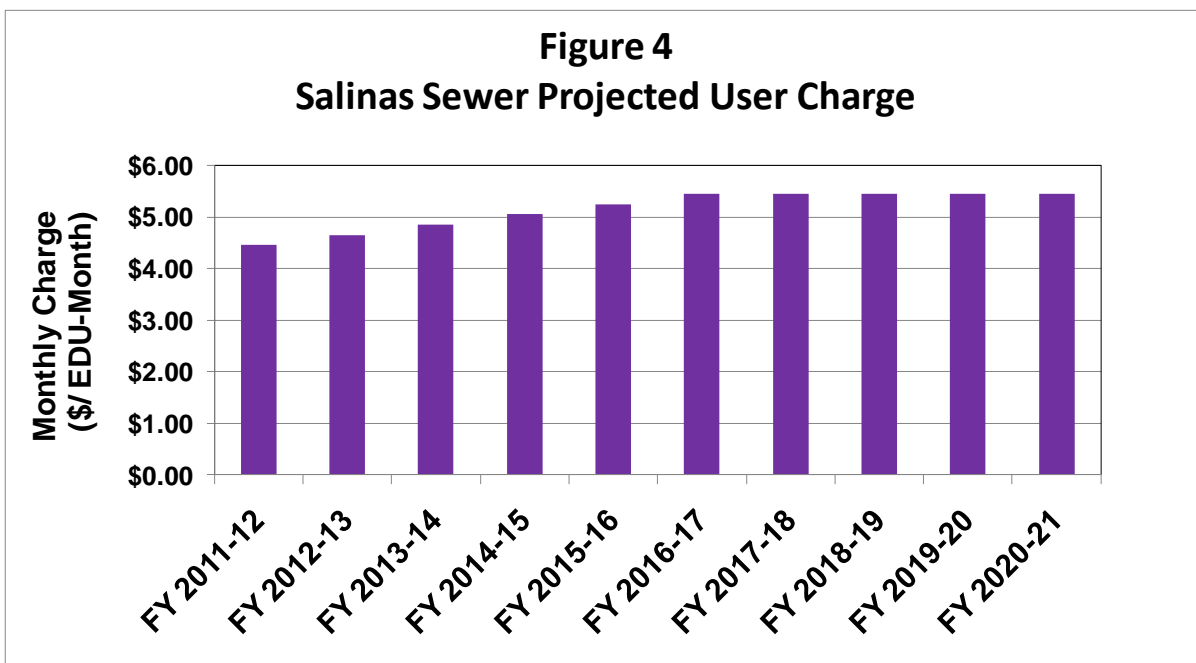


Figure 4 illustrates the projected increases in the unit rates for single-family dwelling customers under the recommended rates through FY 2020-21. The increase in rates in the next three years will actually be less than under the current method tied to the MRWPCA, who just approved a three year rate increase. Staff proposes adopting rates for the next five years through FY 2016-17 as indicated in the attached resolution. Residential charges will increase by \$0.19 a month in FY 2012-13 and then \$0.20 a month in each of the four years starting in FY 2013-14 through FY 2016-17.



These rate adjustments are regulated by the provisions of California Proposition 218 which require the City to provide an opportunity for ratepayers to formally protest any proposed rate increases. Below is a tentative schedule for the Proposition 218 process and additional public outreach efforts.

1. City Council Notice Approval – November 15, 2011
2. Notices Mailed to Ratepayers – November 17, 2011
3. Special Mailer to Targeted Customers with Increases – November 30, 2011
4. Council Introduce an Ordinance Amending Municipal Code Section 36-20.5 – December 6, 2011
5. Council Adoption of Ordinance – December 13, 2011
6. Council Public Hearing Meeting to Consider Protest – January 10, 2012
7. Rates Effective – February 1, 2012

The existing Municipal Code section 36-20.5 calls for a rate of 35% of MRWPCA's rate. Staff is proposing that the City Council adopt an ordinance amending section 36-20.5 to establish the rates as a fixed rate, rather than a percentage of the MRWPCA rate, with the fixed rate to be established by resolution based on the detailed Rate Study. This structure is consistent with most all other City fees and will allow the City to adopt the new rates on January 10, 2012.

Staff plans to send the attached sample letter to a targeted group of customers that will see an increase in their bill by more than \$3.00 or if their bill will increase by more than 4% and the dollar increase is greater than \$3.00. Out of the 31,490 customers served by the City of Salinas, this letter is being sent to 92 customers.

ISSUES:

Shall the City Council:

1. Receive the Wastewater Financial Plan and Rate Study prepared by CDM; and
2. Adopt a Resolution of Intention to modify sanitary sewer rates and set the public hearing date?

ALTERNATIVES AVAILABLE TO COUNCIL

1. Not adopt the resolution of intention to modify sanitary sewer rates and set public hearing date and direct staff on how to proceed.

FISCAL IMPACT:

Funding for the rate study and conducting the Proposition 218 process and additional public outreach efforts will be paid by the FY 2011-12 Sanitary Sewer Enterprise Fund operating budget.

CITY COUNCIL GOALS:

Directly supports the City Council’s prosperity initiative and organizational effectiveness initiative.

CONCLUSION:

The new rate methodology is a more equitable method of allocating the costs among the customer categories and adequately sustains the operations of the Sanitary Sewer Enterprise.

Distribution:
City Council
City Manager
City Attorney
Department Directors

Back Up Pages:
Resolution of Intention to modify rates and set public hearing date
Draft Proposition 218 Notice of Public Hearing
Sample Target Letter for Customers with Fee Increases
Final Draft of the Wastewater Financial Plan and Rate Study