

BUSINESS OF THE COUNCIL OF THE CITY OF HALF MOON BAY

AGENDA REPORT

For meeting of: **March 17, 2020**

TO: Honorable Mayor and City Council

VIA: Bob Nisbet, City Manager

FROM: John T. Doughty, Public Works Director
Lisa Lopez, Administrative Services Director
Maz Bozorginia, City Engineer

TITLE: WORKSHOP REGARDING PROPOSED SEWER RATE ADJUSTMENTS

RECOMMENDATION:

Direct staff to schedule a Public Hearing for April 7, 2020 to formally accept the 2020 Sewer Service Charges Study and authorize the release of notices to rate payers pursuant to Proposition 218.

FISCAL IMPACT:

The purpose of the rate adjustment is to create a financially sustainable Sewer Enterprise Fund. Over the last five years, fixed sewer system costs have continued to grow with costs exceeding revenues generated by the current rates each of the last fiscal years. Over the last three years, it has been necessary to utilize emergency/capital reserve funds for fixed operational costs. In FY 2019-20, \$2,006,000 was transferred to the operating fund from the capital reserve fund.

STRATEGIC ELEMENT:

This recommendation supports the Infrastructure and Environment, Healthy Communities and Public Safety, and Inclusive Governance Elements of the Strategic Plan.

SEWER SYSTEM OVERVIEW:

The City's collection system includes approximately 35 miles of gravity sewer lines, three (3) pump stations and three (3) force mains. Wastewater from residences, businesses, schools, restaurants and other buildings and uses is conveyed through sewer mains owned by the City of Half Moon Bay to the sewer treatment plant operated by Sewer Authority Mid-Coastside (SAM). The City collection system serves residences, businesses and public uses from Frenchman's Creek on the north to Miramontes Point Road on the south. The City primarily serves properties located in the incorporated City; however, the City serves some adjacent areas outside the City limits including the Moonridge Housing Development.

The City, Granada Community Services District (Granada) and Montara Water and Sanitary District (Montara) form Sewer Authority Mid-Coastside (SAM) via an exercise of Joint Powers Agreement (JPA). SAM facilities include a conventional wastewater treatment plant (located at 1000 N. Cabrillo Highway, Half Moon Bay) and the Intertie Pipeline System (IPS), which conveys flows through pumping facilities, force mains, and interceptor pipelines from Granada and Montara service areas to the wastewater treatment plant. Under the current JPA, the City is responsible for paying a proportional share of the plant flow for operations, maintenance and capital costs of the wastewater treatment plant. In FY 2019-20, the City's proportional share of operations and maintenance was set at 56-percent. In 2017, the City filed for Declaratory Relief regarding language in the JPA related to member agencies' respective obligations for paying for capital projects (notably the IPS). The parties and City agreed to enter into mediation and have been actively engaged in settlement discussions.

The regional wastewater treatment plant was originally constructed in the late 1970s, following the formation of the JPA. The treatment plant was substantially upgraded in late 1999/2000 and has sufficient capacity to receive and treat anticipated wastewater flows. The treatment plant, due substantially to deferred maintenance, is in need of major maintenance and capital repair which have been estimated between \$30 and \$40 million. This rate study includes funding for capital repair and replacement on either a financed or pay-as-you-go scenario. The rates include approximately \$2.4 million combined annual contribution from the City, Granada and Montara.

The IPS was constructed in the late 1970s and is, for the most part, comprised of original system components. In 2017, the Granada Force Main suffered a major break and resulted in a significant sanitary sewer spill (SSO). Two smaller SSO events occurred on other sections of the Granada Force Main. As a result, SAM completed replacement of approximately 5,700 feet of the Granada Force Main at a cost of almost \$2.0 million. SAM recently commenced work on an additional 1,500 feet of the Granada Force Main. SAM was fined (and member agencies proportionately paid) approximately \$600,000 by the Regional Water Board for the 2017 SSO events. SAM was subsequently sued by the Ecological Resource Foundation (ERF). In addition to some cash considerations, the settlement of this suit included commitment to a series of replacements of the IPS over the next 5-years totaling almost an estimated \$9.0 million. Total IPS repair and replacement is estimated at between \$20 and \$25 million.

SEWER ENTERPRISE FUND OVERVIEW:

The City's Sewer Fund is a government enterprise fund. An enterprise fund is a self-supporting government fund that provides a specialized service. In this instance, City sewer services represent the specialized service; the Sewer Fund is the City's only enterprise fund. The Sewer Fund is shown in the City's Annual Operations Budget as two separate accounts: Fund 05 (Operating Fund); and 06 (Sewer Capital Fund). The separation exists solely to separately account for operations expenses and capital expenses.

Ninety-nine (99%) percent of the sewer system (utility) revenues is derived directly from the rates charged to the users of the sewer system. Per State law, sewer service charges are

permitted to recover only revenues sufficient to adequately fund sewer utility operations, maintenance, and capital replacement expenditure including maintenance of emergency and capital reserves. As noted above, the City's sewer service charges include not only the operation and maintenance of the City collection system, but also the proportional costs of operating and maintaining Sewer Authority Mid-Coastside (SAM) (including the treatment plant and intertie pipeline system).

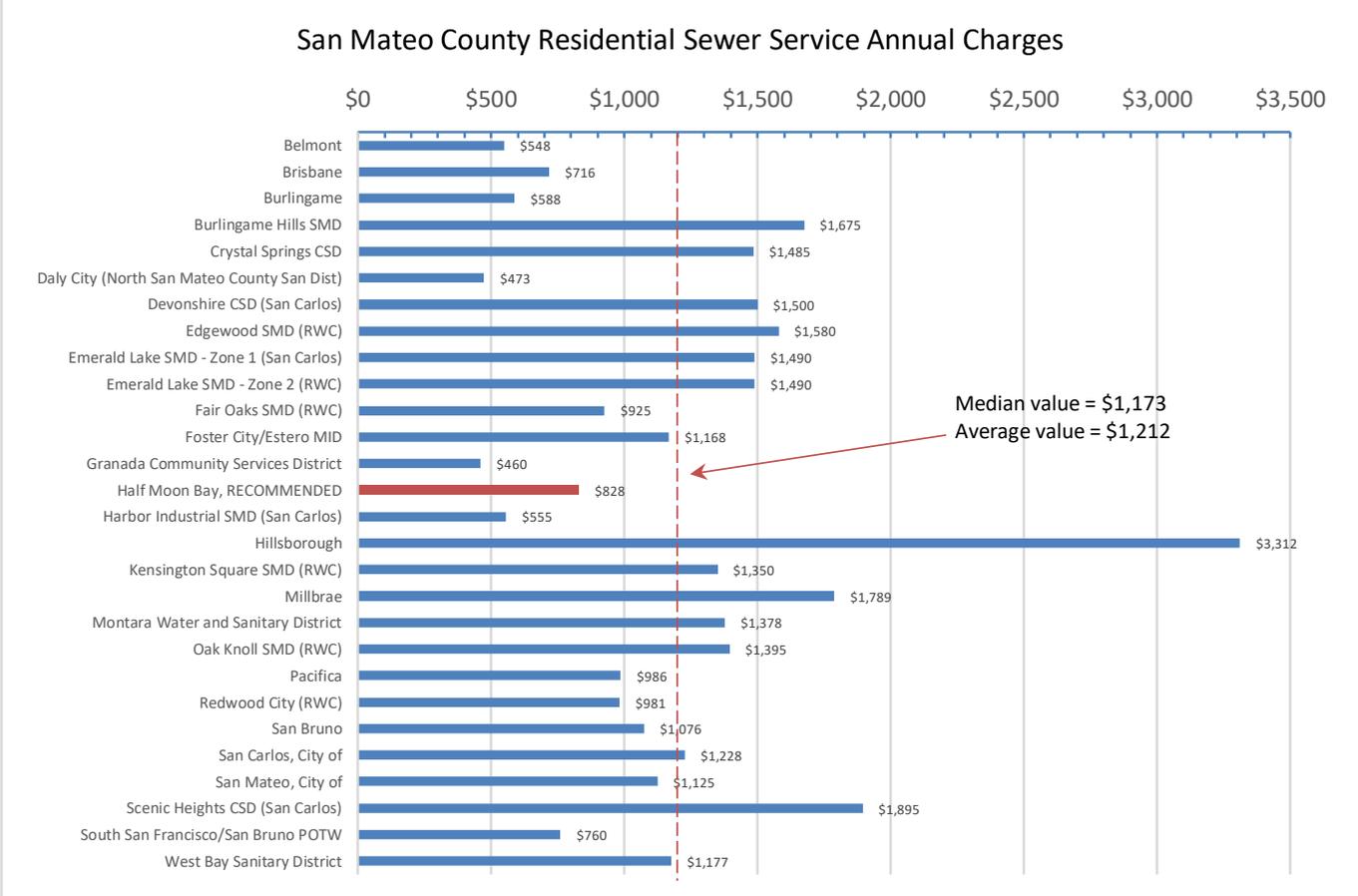
Operations and maintenance costs for sewer services have increased significantly over the last three years. Between FY 2015-16 (\$2,299,898) and FY 2019-20 (\$4,131,899) the Half Moon Bay proportion of SAM budgeted costs alone have almost doubled. Additionally, the City's share of the costs has increased by almost 10-percent over the last five years. SAM related increases are attributable to a number of factors including the need to provide sufficient staffing, address deferred maintenance, pay for sewer spill related costs and account for the rapidly increasing cost of materials and labor for capital construction and maintenance.

The City's collection system operating costs have also risen in response to statutory oversight obligations, addressing long deferred maintenance, providing oversight of the operations and maintenance and also to account for the rapidly increasing cost of materials and labor for capital construction and maintenance. The City is currently advertising for the Ocean Colony Pump Station and Force Main Project. This project is necessary to replace aging infrastructure necessary to protect the environment and limit liability. The engineer's estimate of construction costs is nearly \$3 million. Additional capital maintenance and repair will need to continue to protect the environment, limit liability and meet statutory obligations. While the City is proactively managing and maintaining its sewer assets, portions of the inground pipes are 70-80 years old and approaching normal life expectancy.

The last rate increase for City sewer customers was effective July 1, 2014; based upon a rate study approved by City Council in 2012. The increases covered rates for fiscal year (FY) 2012-13 and 2013-14. This adjustment followed a rate increase approved in 2010 which increased rates in FY 2010-11 and FY 2011-12. Granada and Montara are subject to the same fixed costs issues and have each increased rates during this period of time. Montara is considering three years of 9-percent annual rate increases which will be effective on July 1, 2020. Many San Mateo County/Peninsula agencies have or will be considering rate adjustments to address increasing fixed costs and environmental compliance.

DISCUSSION:

The City currently serves 4,762 sewer customers, of which, 4,455 are currently classified as residential customers and 307 classified as non-residential customers. City sewer service charges across-the-board are among the lowest in San Mateo County. Today, the average single-family rate (averaged across all accounts) is approximately \$830 annually or the equivalent of \$69.00 per month. Across San Mateo County, the average annual service charge is \$1,212 (\$101 per month) and the median annual sewer service charge is \$1,173 (\$97.75). The rate comparison table for San Mateo County is below. The City rate (in red) reflects the anticipated rate for an average single-family home as of July 1, 2020.



City sewer customers have enjoyed six years of rate stability. Unfortunately, revenues are not keeping pace with the increasing cost of operating and maintaining the City collection system or the SAM operations and facilities. While efforts have and will continue to be made to operate efficiently and cost effectively, the cost of “doing business” has increased and the rates need to be adjusted. Further, neither the City or SAM can defer infrastructure repairs and replacements as the cost of deferral would be significantly greater in both actual costs and potential liabilities. Over the last several years, the City has been required to use emergency and capital reserve funds to cover the increasing costs of operations.

In light of this, the City commissioned the services of Municipal Financial Services (MFS) to assist the City in evaluating the current rates and rate structure, City costs (current and anticipated costs), SAM costs (current and anticipated) and to recommend a revised rate structure in accordance with Proposition 218. The City has been working with MFS since the fall of 2019 to complete the statutorily required cost of service analysis. We are nearing completion of the cost of service study. With the concurrence of the City Council Finance Committee, staff felt it important to provide information to the community and full City Council

regarding the study and the initial recommendations regarding the rate structure and sewer service charges (rates) for the next five fiscal years.

Below is a table which reflects preliminary service charges by customer/premise classification.

	Current 2019-20 Rate Structure	2020-21	2021-22	2022-23	2023-24	2024-25		
	<u>Minimum</u>	<u>@ 60 HCF/year</u>	<u>Avg/year</u>	<u>Per Account or Unit Per Year</u>				
Residential Single Family	\$537	\$0	Average Bill	\$828	\$936	\$1,056	\$1,188	\$1,344
Residential Single Family w/ADU	<<< no current charges >>>			\$960	\$1,104	\$1,236	\$1,392	\$1,572
Residential Multiple Family	\$0	\$0	Per Acct/Unit	\$504	\$576	\$648	\$732	\$828
Mobile Home	\$0	na	\$0	\$504	\$576	\$648	\$732	\$828
Senior Apartments (New Class)				\$504	\$576	\$648	\$732	\$828
	<u>Minimum</u>			<u>Per Account or Unit Per Year</u>				
Retirement Homes	\$0	na	\$0	\$504	\$576	\$648	\$732	\$828
Annual Account Charge	<u>Minimum</u>			<u>Per Account Per Year</u>				
All classes	varies by strength			\$183	\$208	\$235	\$264	\$298
Flow Rate, \$/HCF	<u>Strength Factor</u>	<u>Above Minimum</u>		<u>Annual Water Use</u>				
Office	60.00%	\$6.72		\$8.11	\$9.26	\$10.44	\$11.72	\$13.25
School	65.71%	\$7.36		\$8.11	\$9.26	\$10.44	\$11.72	\$13.25
Recreational	114.29%	\$12.79		\$13.03	\$14.88	\$16.77	\$18.83	\$21.28
Commercial	85.71%	\$9.59		\$9.35	\$10.68	\$12.04	\$13.52	\$15.28
Medical	100.00%	\$11.19		\$11.12	\$12.70	\$14.32	\$16.08	\$18.17
Motel	122.86%	\$13.75		\$13.74	\$15.70	\$17.69	\$19.87	\$22.45
Restaurant	180.00%	\$20.15		\$19.75	\$22.56	\$25.43	\$28.56	\$32.27

Staff and the consultant will be providing a detailed presentation to help explain the methodology and financial analysis leading to these charges.

Conclusion

The City Council is committed to fiscal sustainability and environmental protection. Without a rate adjustment, the City sewer system will not be a financially viable enterprise. Without adequate funding of the sewer system, the City will not be able to operate and maintain the City sewer system in conformance with State and federal regulations; likely resulting in sewer system overflows (SSOs) and extreme legal liability to the City.

Next Steps

- March 17, 2020 – City Council Workshop (Today)
- April 7, 2020 – Council accepts draft report and authorizes mailing Prop 218 Notice
- June 2, 2020 – Hold continued public hearing and adopt rates
- July 2020 – Rates become effective; prepare Tax Roll