



County of San Mateo

Inter-Departmental Correspondence

Department: GOVERNING BOARD

File #: 18-419

Board Meeting Date: 6/5/2018

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors, Acting as the Governing Board of the Ten County Sewer/Sanitation Districts

From: James C. Porter, Director of Public Works

Subject: Sewer Service Rates and Charges for Ten County Sewer/Sanitation Districts Governed by the Board of Supervisors

RECOMMENDATION:

Acting as the Governing Board of the ten County Sewer Maintenance/Sanitation Districts:

- A) Introduction of an ordinance amending Section 4.32.020 for Chapter 4.32, of the San Mateo County Ordinance Code, setting the sewer service rates for FY 2018-19 for the Burlingame Hills Sewer Maintenance District, the Crystal Springs County Sanitation District, Fair Oaks Sewer Maintenance District, and the Harbor Industrial Sewer Maintenance District, and waive the reading of the ordinance in its entirety; and
- B) Adopt a resolution setting Tuesday, July 24, 2018 at 10:00 A.M. at the regularly scheduled Board meeting as the time and place for a public hearing on:
 - 1. The sewer service rates for four (4) County Sewer/Sanitation Districts; and
 - 2. Filing of the sewer service charges report for FY 2018-19 for the ten (10) County Sewer/Sanitation Districts based on the sewer service rates set for FY 2018-19; and
 - 3. Directing the necessary notices for said hearing.

BACKGROUND:

Sewer service charges are collected on the property tax bill. The charges are based on sewer service rates approved by your Board.

On July 25, 2017, your Board approved the sewer service rates for six (6) of the ten (10) districts (Districts) for three fiscal years (FY 2017-18 through FY 2019-20). The sewer service rates for the Burlingame Hills Sewer Maintenance District (BHSMD) and Crystal Springs County Sanitation District

(CSCSD) were set for FY 2017-18 at the same level as the FY 2016-17 rates. The BHSMD and CSCSD sewer service rates have not been modified since they were set in 2011 and 2012, respectively. The rates for the Fair Oaks Sewer Maintenance District (FOSMD) and the Harbor Industrial Sewer Maintenance District (HISMD) were set for one fiscal year (FY 2017-18).

At your Board's direction, the Department has been working with homeowner association representatives from the BHSMD and CSCSD to address the issues specific to these districts. The sewer service rates for these two districts have been set annually due primarily to the uncertainty of the cost of major capital improvements in the districts and the downstream agency system. Last year your Board also directed the Department to evaluate the feasibility of implementing sewer service rate structures that specifically consider mobile home park customers and low-income residents. The FOSMD and the HISMD are the only County-maintained districts with mobile home parks.

DISCUSSION:

The Department has evaluated and summarized two options for implementing sewer service rates with special consideration for low-income or mobile home park residents.

Low-Income Resident Rate Option

If sewer service rates were reduced for low-income customers compared to the rate set for other equivalent residential units (ERU), the rates and subsequent charges for low-income customers would require subsidies from another "unrestricted" funding source (e.g. General Fund, Measure K, etc.). Proposition 218 requires that property related fees such as sewer service charges may not exceed the cost of providing the service, meaning that a subsidy cannot come from other rate payers in a sewer district. Should your Board elect to pursue this option further, additional direction will be necessary from your Board to further define the program, its financial eligibility requirements, and the amount of potential subsidy available or required. Defining the program would, at a minimum, involve: determining maximum income levels for program participation, procedures for participation in program, verification of eligibility requirements, implementation and coordination with property owners since sewer service charges are placed on the tax roll, annual verification of program participants to reflect changes in participation, etc. The Department would recommend coordinating with other County departments that may already have subsidy or voucher programs to define a program. This effort would help inform and provide information relative to how many dwelling units a program of this type may apply to. A program of this type could be implemented for the FY 2019-20 rate year at the earliest, provided a source of funding for the subsidy is identified and budgeted, and potentially apply to all 10 sewer/sanitation districts.

Mobile Home Park Rate Option

The Department retained the consultant firm of HF&H Consultants, LLC (HF&H) in October 2017 to evaluate whether a rate structure for Mobile Home Parks could be set differentially from the District's rate for an ERU. HF&H studied the water use characteristics of single family dwellings compared to Mobile Home Park units within the FOSMD and HISMD. The FOSMD serves 11,180 ERU with 791 of these being Mobile Home Park units. The HISMD serves 242 ERU with 81 of these being Mobile Home Park units. Preliminary findings of HF&H's evaluation indicate that Mobile Home Park units generally use approximately 25% less water than single family dwellings. These findings were based on a limited sample of water usage data relative to location and timeframe. Mobile Home Parks are typically serviced by one or a few water meters, so the variability in water consumption per unit and vacancies in the Mobile Home Park during the study period cannot accurately be assessed. It is important to note that water consumption, which relates directly to sewage treatment volume, is a

small component of overall sewer district operating costs and is further described below.

As stated, this evaluation focused on water consumption data as a comparison for sewage generation. The County Sewer/Sanitation Districts (Districts) rates are based on ERUs for residential dwellings (eg. per single family dwelling, apartment, or mobile home unit). Commercial and industrial customers' sewer charges are based on water consumption and anticipated sewer loading based on type of the business. This information is used to calculate the number ERUs for this type of customer that is used to calculate the sewer charges.

Sewer agencies typically charge customers based on either ERUs or water consumption. Agencies that provide both water and sewer service to their customers may be more likely to assess sewer charges based on water consumption. Sewer rates that are based on water consumption typically contain fixed and variable components of the rate. The fixed portion of the rate reflects costs that are shared equally by all sewer system users (administration, rate setting, operations & maintenance, capital improvement projects, regulatory requirements, etc.). The variable portion of the rate considers the quantity of sewage treated based on water consumption.

The Department previously evaluated this type of rate structure and found that 85-88% of the rate would be fixed and 15-12% of the rate would be variable. The evaluation also revealed that the cost associated with implementing this type of rate structure was significant, which would be factored into the fixed rate portion of the rate. Typically, this rate structure would assess higher charges to dwellings that house more people than houses with less people. During the recent drought years, sewer agencies that had a high portion of their sewer rates based on water consumption found that the sewer charges were not adequate to pay the sewer expenses, which resulted in setting higher sewer rates. Additionally, the Districts' areas are served by multiple water purveyors making the cost of collecting the required water consumption data costly. There are many factors that contribute to the sewer rate methodologies used by sewer agencies, which must be carefully considered if an alternate rate structure is contemplated. When considering the Districts' circumstances, the Department is recommending that existing sewer rate structure continue to be implemented for FY 2018-19 and future fiscal years as it is the least costly method of administering sewer service charges and is an acceptable method used by many sewer agencies, including the West Bay Sanitary District, which is located adjacent to FOSMD.

We have evaluated the requirements for each district and have developed the proposed rates to finance:

1. Continued routine and emergency maintenance (operation and maintenance).
2. Cost for sewage treatment and disposal.
3. The cost to comply with State and Federal Regulations, (required reporting, development of Sewer System Management Plans [SSMP], on-going television inspection of the sewer system, spot repairs identified through the television inspections, and acquisitions or replacement of equipment used to maintain and repair the sewer systems).
4. The cost to implement capital improvement projects to increase the size of sewer mains where capacity is insufficient, and to rehabilitate or replace structurally damaged sewer mains.

5. Payments pursuant to existing agency agreements for costs associated with downstream system or facility maintenance, improvements and upgrades.
6. Annual payments by BHSMD and CSCSD for existing low interest State Revolving Fund (SRF) Loan Agreements specific to these districts for capital improvement projects completed with SRF financing.

Public Input Process

The Department sent a letter to every property owner in each of the four districts in May 2018 notifying them of the proposed rates and inviting them to attend a community meeting specific to their district to discuss the proposed rates and obtain their input. The community meetings were held in May 2018 and included presentations from staff.

Staff has continued to meet with representatives from the BHSMD Homeowners Association (HOA) and has provided periodic updates to the CSCSD HOA regarding district and downstream projects, future sewer service rates, and issues specific to their district. There are uncertainties regarding future costs for both BHSMD and CSCSD. Capital improvement projects within and downstream of both these districts were identified through work required by expired Baykeeper Consent Decree (for BHSMD) and a Cease and Desist Order (CDO) from the Regional Water Board (affecting CSCSD). As a requirement of the Consent Decree, the BHSMD developed a revised capital improvement project list, which prioritized several sewer pipe replacement projects with estimated costs.

Additional Factors Contributing to Recommended Rate Adjustments

The BHSMD completed a capacity improvement project for approximately 4,800 linear feet of sewer mains on Canyon Road and in the easements near Adeline Drive. The remaining projects on the capital improvement list are estimated to cost over \$12 million. The City of Burlingame (Burlingame) plans to implement capital improvement projects on its sewer collection system and at its wastewater treatment plant. These projects are estimated to cost over \$23 million over the next five years, which the BHSMD must pay a share of in accordance with the agreement with Burlingame. Total annual revenue for this district in FY 2017-18 is approximately \$780,000.

The City of San Mateo (San Mateo) is implementing an approximately \$900 million Clean Water Program as a result of the CDO, which includes several large sewer and wastewater treatment plant projects for which the CSCSD will pay portions of. The cost implications of San Mateo's projects to the CSCSD and the financial arrangements between San Mateo and the CSCSD have not been determined yet, but will be substantial. The resolution of these issues will have a significant and direct financial impact on the CSCSD.

The Department will continue to meet with the representatives from BHSMD and the CSCSD on an as-needed basis during FY 2018-19, to discuss future sewer service rates that support the existing commitments and the significant financial issues mentioned.

The wastewater from both the FOSMD and HISMD is transported through collection systems of the cities of Redwood City and San Carlos, respectively. Sewage from these districts and the other six districts are treated at the Silicon Valley Clean Water (SVCW) treatment plant. The SVCW is moving forward on capital improvement projects estimated to cost \$581 million. Through their respective agreements with Redwood City and San Carlos, the FOSMD and HISMD are responsible for their proportionate shares of SVCW's annual expenditures, including capital improvements. The proposed

rates for the FOSMD and HISMD consider the estimated financial obligations for the SVCW projects for FY 2018-19. The SVCW projects are the primary reason for the proposed FY 2018-19 rate increases. Similar rate increases are anticipated for the next three fiscal years due to the SVCW projects.

As discussed above, all of the districts face some uncertainties regarding future costs which will affect future rates including: anticipated cost of work at the wastewater treatment plants and the downstream collection systems, financial arrangements for capital improvements to district or downstream facilities, and the long-term financial impacts as a result of complying with the requirements of the State Water Boards. Therefore, we are proposing to set the sewer service rates for one (1) year (FY 2018-19) for the BHSMD, CSCSD, FOSMD, and HISMD.

The process to be followed to set the sewer service rates and adopt the sewer service charges includes:

- 1) Amend the Ordinance Code to:
 - a) Set the FY 2018-19 sewer service rate used to calculate the sewer service charge fee for each property within the BHSMD at \$1,675 per year per residential unit equivalent.
 - b) Set the FY 2018-19 sewer service rate used to calculate the sewer service charge fee for each property within the CSCSD at \$1,415 per year per residential unit equivalent.
 - c) Set the FY 2018-19 sewer service rate used to calculate the sewer service charge fee for each property within the FOSMD at \$850 per year per residential unit equivalent.
 - d) Set the FY 2018-19 sewer service rate used to calculate the sewer service charge fee for each property within the HISMD at \$505 per year per residential unit equivalent.
- 2) Second reading and adoption of the amended ordinance on July 24, 2018 setting sewer service rates for FYs 2018-19 for the BHSMD, CSCSD, FOSMD, and HISMD.
- 3) Hold a public hearing and receive testimony on (1) the sewer service rate increases for the BHSMD, CSCSD, FOSMD, and HISMD and (2) the Sewer Service Charges for ten (10) Districts calculated based on the adopted sewer service rates.
- 4) After considering all written and oral objections to the sewer service rates for the BHSMD, CSCSD, FOSMD, and HISMD and (2) the Sewer Service Charges for ten (10) Districts, close the public hearing and determine if there is a majority protest to the proposed sewer service rate for the BHSMD, CSCSD, FOSMD, and HISMD.
- 5) If there is a majority protest in any of the four (4) Districts, terminate your consideration of imposing a sewer service rate increase in that District and set the sewer service rate for FY 2018-19 at the same sewer service rate in effect for FY 2017-18 for that District while setting the FY 2018-19 sewer service rate as proposed in the other Districts.

In addition, Article XIIC and XIID of the State Constitution requires an individual notice of the hearing to consider any new or increased property related fees including sewer fees, and a mechanism for rejecting the fees via a “majority protest” at the public hearing. We are recommending

that your Board direct the Department to notify each property owner within the BHSMD, CSCSD, FOSMD, and HISMD of the proposed sewer service rate and charges by mail and to explain that protests to the sewer service rate must be in writing.

The Department continues to work with the Federal Emergency Management Agency (FEMA) for reimbursement of damages sustained by the CSCSD and Emerald Lake Heights Sewer Maintenance District from the 2017 winter storms. Future rates for the CSCSD and Emerald Lake Heights Sewer Maintenance District may be impacted due to damage should any FEMA reimbursement not be adequate to pay for the repair projects.

County Counsel has reviewed and approved the ordinance and resolution as to form.

Setting of the sewer service rates contributes to the Shared Vision 2025 outcome of a Healthy Community by providing revenue to the ten (10) sewer districts and allowing for uninterrupted service to district customers.

FISCAL IMPACT:

The following are the current sewer service rates and proposed sewer service rates for FY 2018-19 for the BHSMD, CSCSD, FOSMD, and HISMD that we believe are needed to cover the costs as explained above.

District	Sewer Service Rate (\$/Year Per Equivalent Residential Unit)	
	FY 2017-18	Proposed Rates FY 2018-19
Burlingame Hills SMD	\$1,595	\$1,675
Crystal Springs CSD	\$1,350	\$1,415
Fair Oaks SMD	\$680	\$850
Harbor Industrial SMD	\$410	\$505

We estimate that it will cost approximately \$7,300 (\$0.785 per rate payer in the Districts) to prepare, print, and mail individual notices to each rate payer in the BHSMD, CSCSD, FOSMD, and HISMD with proposed increases. This cost will be paid from the revenues of the respective Districts.

There is no impact to the General Fund.