



County of San Mateo

Inter-Departmental Correspondence

Department: GOVERNING BOARD

File #: 20-363

Board Meeting Date: 6/2/2020

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 Maintenance and Sanitation Districts Governed by the Board of Supervisors

RECOMMENDATION:

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

- A) Introduction of an ordinance amending Section 4.32.020 for Chapter 4.32, of the San Mateo County Ordinance Code, setting sewer service rates for FYs 2020-21 through FY 2022-23 for eight districts, and setting the sewer service rates for FY 2020-21 for the Burlingame Hills Sewer Maintenance District and the Crystal Springs County Sanitation District, and waive the reading of the ordinance in its entirety; and
- B) Adopt a resolution setting Tuesday, July 21, 2020 at 9:00 A.M. at the regularly scheduled Board meeting as the time and place for a public hearing on:
 - 1. The sewer service rate increases for the ten County Sewer Maintenance and Sanitation Districts; and
 - 2. Filing of the sewer service charges report for Fiscal Year 2020-21 for the ten (10) County Sewer Maintenance and Sanitation Districts based on the sewer service rates set for Fiscal Year 2020-21; 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 of the ten (10) County Sewer

Maintenance and Sanitation Districts (Districts) for three fiscal years (FY 2017-18 through FY 2019-20); set sewer service rates for the Burlingame Hills Sewer Maintenance District (BHSMD) and Crystal Springs County Sanitation District (CSCSD) for FY 2017-18 at the same level as the FY 2016-17 rates; and set rates for one fiscal year (FY 2017-18) for the Fair Oaks Sewer Maintenance District (FOSMD) and the Harbor Industrial Sewer Maintenance District (HISMD).

On July 26, 2018, your Board set the sewer service rates for the BHSMD, CSCSD, FOSMD, and HISMD for FY 2018-19 only.

On July 23, 2019, your Board set the sewer service rates for the CSCSD, FOSMD, and HISMD for FY 2019-20 only.

The sewer service rates for the BHSMD and CSCSD have been set annually since FY 2012-13 due primarily to the uncertainty of the costs for major capital improvements in the districts and the downstream agency systems.

DISCUSSION:

The Department understands the financial strain as a result of the COVID-19 pandemic will be significant and the difficult choices that the customers of the County sewer and sanitation districts (Districts) are and will be facing now and potentially into the future. The Districts must continue to provide vital and critical sewage collection service, emergency response to sewer overflows and backups, routine maintenance and repairs to existing infrastructure, and comply with Federal and State water quality requirements. In addition, costly capital improvement projects in the Districts and at the sewage treatment plants that were in progress prior to the pandemic are still being constructed or planned for the next few years.

We have evaluated the requirements for each District and the proposed rates have been developed to finance the following:

1. Continued routine and emergency maintenance (operation and maintenance).
2. Cost for sewage treatment and disposal at downstream wastewater treatment plants.
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 the BHSMD and CSCSD for existing low interest State Revolving Fund (SRF) and other Loan Agreements specific to the district for capital improvement projects completed by downstream agencies.

Additional Factors Contributing to Recommended Rate Adjustments

There are uncertainties regarding future costs for all ten Districts. Capital improvement projects within and downstream from these districts were identified through work required by the expired Baykeeper Consent Decree (for BHSMD), a Cease and Desist Order (CDO) (affecting CSCSD), and the National Pollutants Discharge Elimination System permit (NPDES) to the Silicon Valley Clean Water (SVCW) regional wastewater treatment plant from the Regional Water Board affecting the other eight districts.

The BHSMD developed a revised capital improvement project list, which prioritized several sewer pipe replacement projects with estimated costs. The projects on the capital improvement list are estimated to cost over \$12 million. The upcoming project, which is currently in the design phase has been estimated to cost more than \$2.7 million to construct and will exhaust all of the BHSMD's reserve for capital improvements collected over the past several years. The City of Burlingame (Burlingame) in 2018 implemented a five-year capital improvement program for its sewer collection system and wastewater treatment plant. The 5-year program includes projects estimated to cost over \$23 million from FY 2018-19 thru FY 2022-23, which the BHSMD began paying in FY 2018-19 a share of in accordance with the agreement with Burlingame. Total annual sewer service revenue (primary revenue source) based on the current rate set in 2019 for the BHSMD is approximately \$740,000. In late 2019, a draft Operational and Governance Options study with the objective of finding options that are fiscally sound and provide efficient operations and good governance for the BHSMD was completed. The Department continues to meet with the representatives from BHSMD and the City of Burlingame to discuss and explore options to reduce these uncertainties and impact on future rates. Representatives of the Burlingame Hills Improvements Association has recommended the rate adjustment for FY 2020-21 only.

The City of San Mateo (San Mateo) has implemented their Clean Water Program (CWP) estimated to cost approximately \$1 billion 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 preliminary cost implications of the CWP to the CSCSD are currently estimated to be \$33.1 million and the financial arrangements between San Mateo and the CSCSD have not been finalized, but are estimated to be approximately \$1.8 million in debt payments per year for 30 years. The resolution of these issues will have a significant and direct financial impact on the CSCSD. The proposed rate increase for the CSCSD supports a portion of the anticipated debt payments but is not adequate for the total estimated annual debt payment amount. The Department is also meeting with the representatives from San Mateo to discuss project financing options and future sewer service rates that support the existing commitments.

The wastewater from the other eight districts is transported through collection systems of the cities of the City of Redwood City (Redwood City) and the City of San Carlos (San Carlos). Sewage from the eight districts are treated at the SVCW treatment plant. The SVCW's capital improvement projects that were initiated in 2008 are now estimated to cost \$932 million in total over a 22-year period, an increase of \$82 million from their 2019 estimate of \$850 million. Now in its twelfth year, SVCW has completed over 120 projects and spent \$455 million to date. The remaining SVCW capital improvement projects are estimated to cost \$477 million and will generally be funded through bond financing. Through their respective agreements with Redwood City and San Carlos, the eight districts are responsible for their proportionate shares of the SVCW's annual expenditures, including capital improvements. The proposed rates for the eight districts consider the estimated financial obligations for the SVCW projects and increased operation and maintenance costs for FYs 2020-21 through 2022-23. The SVCW costs are the primary reason for the proposed FYs 2020-21 through 2022-23

rate increases.

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 Board. Therefore, we are proposing to set the sewer service rates for eight districts for three (3) years (FYs 2020-21 through 2022-23) and set the sewer service rates for one (1) year (FY 2020-21) for the BHSMD and CSCSD.

Due to the current COVID-19 Shelter-in-Place orders issued by the Governor and San Mateo County Health Officer and health concerns of staff and the rate payers, public meetings with property owners will not be held this year as has been done in prior years. However, the Department has prepared and posted informational presentations regarding the proposed rate increases on its website at: <https://publicworks.smcgov.org/SSR>. District customers will be informed of this link and have the opportunity to submit questions they may have. Responses to the questions will also be posted online prior to the public hearing.

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 FYs 2020-21 through 2022-23 sewer service rates used to calculate the sewer service charge fee for each property for the eight (8) Districts.
 - b. Set the FY 2020-21 sewer service rate used to calculate the sewer service charge fee for each property within the BHSMD at \$1,742 per year per residential unit equivalent.
 - c. Set the FY 2020-21 sewer service rate used to calculate the sewer service charge fee for each property within the CSCSD at \$1,585 per year per residential unit equivalent.
- 2) Second reading and adoption of the amended ordinance on July 21, 2020 setting sewer service rates for FYs 2020-21 through 2022-23 for the eight (8) Districts and for FY 2020-21 for the BHSMD and CSCSD.
- 3) Hold a public hearing and receive testimony on (1) the sewer service rate increases for the ten (10) Districts and (2) the Sewer Service Charges for the ten (10) Districts calculated based on the adopted sewer service rates.
- 4) After considering all written and oral objections to the sewer service rates and the Sewer Service Charges for all ten (10) Districts, close the public hearing and determine if there is a majority protest to the proposed sewer service rates.
- 5) If there is a majority protest in any of the ten (10) Districts, terminate your consideration of imposing a sewer service rate increase in that District and set the sewer service rate for FY 2020-21 at the same sewer service rate in effect for FY 2019-20 for that District while setting the FYs 2020-21 through 2022-23 sewer service rates 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 Districts of the proposed sewer service rates and charges by mail and to explain that protests to the sewer service rates must be in writing.

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

FISCAL IMPACT:

The following are the current sewer service rates and proposed sewer service rates for FYs 2020-21 through 2022-23 that we believe are needed to cover the costs as explained above.

District	Sewer Service Rate (\$/Year Per Equivalent Residential Unit)			
	FY 2019-20	Proposed Rates		
		FY 2020-21	FY 2021-22	FY 2022-23
Burlingame Hills SMD	\$1,675	\$1,742	Rates to be evaluated during 2021-22	
Crystal Springs CSD	\$1,485	\$1,585	Rates to be evaluated during 2021-22	
Devonshire CSD	\$1,500	\$1,540	\$1,580	\$1,620
Edgewood SMD	\$1,580	\$1,605	\$1,630	\$1,655
Emerald Lake SMD - Zone 1	\$1,490	\$1,565	\$1,640	\$1,715
Emerald Lake SMD - Zone 2	\$1,490	\$1,565	\$1,640	\$1,715
Fair Oaks SMD	\$925	\$955	\$985	\$1,015
Harbor Industrial SMD	\$555	\$585	\$615	\$645
Kensington Square SMD	\$1,350	\$1,450	\$1,550	\$1,650
Oak Knoll SMD	\$1,395	\$1,445	\$1,495	\$1,545
Scenic Heights CSD	\$1,895	\$1,995	\$2,095	\$2,195

We estimate that it will cost approximately \$9,300 (\$0.82 per rate payer in the Districts) to prepare, print, and mail individual notices to each rate payer regarding the proposed increases. This cost will be paid from the revenues of the respective Districts.

There is no impact to the General Fund.