



County of San Mateo

Inter-Departmental Correspondence

Department: GOVERNING BOARD

File #: 20-532

Board Meeting Date: 7/21/2020

Special Notice / Hearing: Complied with the Required Notification/
Public Hearing Required
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: Adoption of: (1) Proposed Sewer Service Rates; and (2) Fiscal Year 2020-21 Sewer Service Charges Report for the Ten County Sewer/Sanitation Districts Governed by the Board of Supervisors

RECOMMENDATION:

Acting as the Governing Board of the ten County Sewer/Sanitation Districts, conduct a public hearing:

- A) Open public hearing
- B) Close public hearing
- C) Adopt an ordinance to amend Section 4.32.020 of Chapter 4.32 of Title 4, of the San Mateo County Ordinance Code, setting sewer service rates for FYs 2020-21 through FY 2022-23 for eight County Sewer Maintenance and Sanitation Districts, and setting sewer service rates for FY 2020-21 for the Burlingame Hills Sewer Maintenance District and the Crystal Springs County Sanitation District, previously introduced on June 2, 2020, and waive the reading of the ordinance in its entirety; and
- D) Adopt a resolution:
 - 1. Authorizing the imposition of sewer service charges for FY 2020-21; and
 - 2. Directing the filing of the FY 2020-21 Sewer Service Charges Report (the "Charges Report") for the 10 County Sewer/Sanitation Districts with the County Controller; and,
 - 3. Authorizing the Director of Public Works to refund any overcharge resulting from data,

data entry, or computational errors; and,

4. Authorizing the Director of Public Works to revise the Charges Report as a result of any parcel changes received from the County Assessor and/or County Controller and to file the revised Charges Report with the County Controller.

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 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 the 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 cost of major capital improvements in the districts and the downstream agency system.

Your Board adopted Resolution No. 077458 on June 2, 2020, which set 9:00 a.m. on July 21, 2020, in your Chambers, as the time and place for a public hearing to consider the sewer service rate increases for the eight Districts for FY 2020-21 through FY 2022-23 and the BHSMD and the CSCSD for FY 2020-21, and the filing of the FY 2020-21 Sewer Service Charges Report for the 1) Districts, and directed the Director of Public Works to send the necessary notices for said hearing.

The process to be followed in adopting the Sewer Service rates for the Districts, and adopting the Sewer Service Charges Report for FY 2020-21, includes the following steps:

1. Hold a public hearing and receive testimony on: a) increasing the sewer service rates and; b) imposing the sewer service charges for the Districts calculated on the basis of the adopted sewer service rates.
2. After considering all written and oral objections to the sewer service rates and charges for the Districts, close the public hearing and determine if there is a majority protest to the proposed sewer service rates in any of the Districts.
3. If there is a majority protest in any of the Districts, terminate your consideration of imposing a sewer service rate increase in that District and set the sewer service rate for FY 2020-21 for that District at the sewer service rate in effect for FY 2019-20, and direct Department staff to

recalculate the Sewer Service Charges for that District.

4. If there is not a successful majority protest, adopt the ordinance amending Section 4.32.020 of Chapter 4.32 of Title 4, of the San Mateo County Ordinance Code, increasing the sewer service rates for FY 2020-21 through 2022-23 for the eight Districts and for FY 2020-21 for BHSMD and the CSCSD.
5. Adopt a resolution authorizing the imposition of sewer service charges for FY 2020-21 and authorizing the filing of the FY 2020-21 Sewer Service Charges Report with all 10 Districts with the Controller.

DISCUSSION:

The Department understands the financial strain as a result of the COVID-19 pandemic will be significant on customers of the County sewer and sanitation districts. 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.

Our June 2, 2020 Board report explained the need for the sewer rate increases for the Districts, and adoption of the Sewer Service Charges report based on the adopted sewer service rates. The report also described the proposed process to be followed pursuant to the County Ordinance Code. Additionally, as of the date that the attached Charges Report was developed, the data for the relevant tax rate areas was still being finalized by the County. The proposed Resolution therefore authorizes the Director of Public Works to revise the Charges Report as a result of any parcel changes received from the County Assessor and/or County Controller on or after July 15, 2020, as well as to refund, during the fiscal year, any overcharges resulting from any such errors in the Charges Report. The Districts will refund any errors found with the submittal of proof of payment of the charges levied on the tax roll.

Property Owner Notification

After the Board meeting on June 2, 2020, the Department sent a Proposition 218 Notice to property owners in the Districts that are affected by the rate increase, which provided them with the proposed rates and information about the time and place of the public hearing. This mailing complied with Article XIII C and XIII D of the State Constitution by individually noticing each property owner of record of the proposed increases in the property related fee and a mechanism for rejecting the fees via a “majority protest” at the public hearing.

Additional Factors Contributing to Recommended Rate Adjustments

The City of Burlingame (Burlingame) in 2018 implemented a five-year capital improvement program for its sewer collection system and wastewater treatment plant. The program includes projects estimated to cost over \$23 million from FY 2018-19 thru FY 2022-23, which the BHSMD began paying a share of in accordance with the agreement with Burlingame in FY 2018-19. Total annual sewer service revenue (primary revenue source) based on the current rate set in 2019 for the BHSMD is approximately \$740,000. 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.

The City of San Mateo (San Mateo) has implemented their Clean Water Program (CWP), estimated to cost approximately \$1 billion, in response to the Cease and Desist Order 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 Silicon Valley Clean Water (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 in the June 2, 2020 Board report, 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 years (FYs 2020-21 through 2022-23) and set the sewer service rates for one 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 were not held this year as has been done in prior years. However, the Department prepared and posted informational presentations regarding the proposed rate increases on its website at: <https://publicworks.smcgov.org/SSR>. District customers were informed of this link and had the opportunity to submit questions. Responses to the questions have been posted online.

The following table indicates the number of written protests to the proposed sewer service rate increases that were received at the time this report was prepared.

District	No. of Properties in Districts	Written Protests Received	Percent (%)
Burlingame Hills SMD	435	0	0%
Crystal Springs CSD	1,459	1	0.07%
Devonshire CSD	301	0	0%
Edgewood SMD	18	0	0%
Emerald Lake Heights SMD - Zone 1	193	2	1.04%
Emerald Lake Heights SMD - Zone 2	1,743	2	0.11%
Fair Oaks SMD	7,434	1	0.01%
Harbor Industrial SMD	68	0	0%
Kensington Square SMD	74	0	0%
Oak Knoll SMD	131	0	0%
Scenic Heights CSD	50	0	0%

Staff will report to your Board on any written protests that are received up to and including the date and time of the public hearing.

Alternates to Consider

After the close of the hearing, if there is not a majority protest, your Board can approve the recommended sewer service rate(s) or reduce the sewer service rate(s) as you may determine appropriate. However, reducing the proposed rate(s) would require identifying a source of funding, such as a loan, if the District’s incurred expenses exceed amounts that can be paid for based on the adopted rates. Additional impacts to the Districts could include: reduced maintenance, deferred capital improvements, or the Districts not meeting State mandates.

Staff believes the recommended sewer service charges are appropriate as they have been calculated in conformance with the proposed sewer service rates, provide the funding necessary to maintain the collection systems of the Districts, allow the Districts to meet their contractual commitments, and meet current State mandates.

County Counsel has reviewed and approved the Ordinance and Resolution as to form, and staff will provide an alternate form of ordinance and resolution if there is a majority protest.

FISCAL IMPACT:

The following are the current and proposed sewer service rates:

District	Sewer Service Rate (\$/Year Per Equivalent Residential Unit)			
	FY 2019-20	Proposed Rates		
		2020-21	2021-22	2022-22
Burlingame Hills SMD	\$1,675	\$1,742	Rates to be evaluated during FY 2021-22	

Crystal Springs CSD	\$1,485	\$1,585	Rates to be evaluated du FY 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 - Z1	\$1,490	\$1,565	\$1,640	\$1,715
Emerald Lake SMD - Z2	\$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

Adoption of the FY 2020-21 Sewer Service Charges Report and its electronic filing with the Controller will result in the user charges contained therein being placed on the tax roll. The charges will appear on the FY 2020-21 tax bill of each affected property and be collected in the same manner as the property tax. The estimated sewer service charges for FY 2020-21 for the 10 County Sewer / Sanitation Districts are listed in Attachment A. Additionally, a \$1.42 per parcel charge will be levied by the Controller based on the Controller's rates schedule approved by your Board for the costs associated with levying the charges on the tax bill.

There is no direct impact to the General Fund. However, sewer service charges are levied on properties that are either leased or owned by the County that are in the Districts and which are provided sewer service.

Attachment A: Estimated Sewer Service Charges for FY 2020-21 for the 10 County Sewer / Sanitation Districts