



DATE: June 21, 2016

CATEGORY: Public Hearing

DEPT.: Finance and Administrative Services

TITLE: **Public Hearing on Proposed Water, Wastewater, and Trash/Recycling Rate Increases**

RECOMMENDATION

Convene a public hearing to accept and consider public comments on the following proposed water, wastewater, and trash/recycling rate increases.

- Water: 10.0 percent for the average cost of water and meter rates and 3.0 percent for recycled water for Fiscal Year 2016-17; and, 6.0 percent for the average cost of water and meter rates for Fiscal Year 2017-18.
- Wastewater: 19.0 percent for Fiscal Year 2016-17; 8.0 percent for Fiscal Years 2017-18 and 2018-19; and, 2.0 percent for Fiscal Years 2019-20 and 2020-21.
- Trash/Recycling: 10.0 percent for carts only effective July 1, 2016; an additional 10.0 percent maximum increase (totaling 20.0 percent) for carts and 2.0 percent for bins and compactors to be determined in fall 2016, for Fiscal Year 2016-17; and 10.0 percent for carts only for Fiscal Year 2017-18.

BACKGROUND

In 1997, voters approved Proposition 218, amending the State Constitution to reinforce voter approval requirements for all new and increased taxes, as well as adding substantive and procedural requirements prior to imposition of property assessments and new or increased “property-related fees and charges.”

In a July 2006 California Supreme Court decision (*Bighorn*), the Court ruled that utility rates charged by governmental entities for water, sewer, and trash/recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII D, of the California State Constitution (Proposition 218). Proposition 218 (as now interpreted) requires governmental agencies that charge for utility services to conduct a majority protest hearing prior to adopting any changes in

utility rates at which time the governing body will consider public input on the proposed rates.

A notice must be mailed no later than 45 days prior to the public hearing that includes the proposed rate adjustments, the calculation methodology, and describe the process for submitting a protest vote to the rate adjustments. If protest letters are received from a majority of the parties affected by the rate increases, the proposed increases are defeated and cannot be further considered without repeating the notice and hearing process.

The legislation provided for future rate increases within prescribed limits to be approved without holding a hearing each year for up to an additional four years. These prescribed limits include an inflation adjustment, third-party (supplier) pass-through costs, and future fiscal year rate increases pursuant to a schedule of adjustments noticed and adopted by City Council through the rate hearing process.

In compliance with Proposition 218, on or before May 6, 2016, 45 days prior to the June 21, 2016 public hearing of the City Council, approximately 16,000 notices containing the required information were mailed to City of Mountain View utility customers. A copy of the notice is included as Attachment 1. Protests must be submitted in writing and may be submitted in person at the City Clerk's Office in City Hall, or at the Council meeting by the close of the public hearing on June 21, 2016. Written protests received prior to or at the public hearing will be opened at the public hearing and a final tally will be given to Council after the hearing is closed. As of June 15, 2016, one protest has been received.

ANALYSIS

Proposed utility rate increases were reviewed and discussed at the April 26, 2016 Narrative Budget Study Session, and at the June 14, 2016 public hearing on the Proposed Budget. A summary discussion of Water, Wastewater (sewer), and Trash/Recycling services follows.

Water

For Fiscal Year 2016-17, an overall 10.0 percent rate increase is proposed for the average cost of water and meter rates, and a 3.0 percent increase is proposed for the recycled water rate. For Fiscal Year 2017-18, a 6.0 percent rate increase in addition to any inflation adjustment and third-party (supplier) pass-through costs is proposed for the average cost of water and meter rates.

The Uniform and Tier 2 rates reflect the average cost of water; Tier 1 is set at 75.0 percent and Tier 2 is set at 160.0 percent of the average cost of water. Meter rates are tied to the capacity ratios published by the American Water Works Association (AWWA). Because of these relationships, the individual rate increase may be slightly more or less than the percent stated. The rate restructuring implemented in Fiscal Year 2013-14 was designed to improve the financial position of this fund and alleviate some of the dependency on the volume of water sales. However, the fixed rate (meter charge) provides only 15.0 percent of revenue while fixed costs represents 35.0 percent of expenditures. The variable (per unit) rate makes up this difference in revenues that are not recovered by the fixed rates. The more than 30.0 percent decrease in water usage over the past two years has not generated the necessary revenues to also fund the fixed costs and has placed a significant strain on the financial position of this fund.

For Fiscal Year 2016-17, taking into consideration the adopted rate increases by the SFPUC (9.3 percent) and the SCVWD (17.9 percent for treated water and 19.9 percent for groundwater), and increases in operating costs, the rate increase to maintain a balance in operating revenues and expenditures would be 7.0 percent. However, due to significantly lower water usage, an additional 3.0 percent rate increase is needed to fund the difference in fixed costs as mentioned above. This projection assumes the minimum water purchase requirement will continue to be waived for Fiscal Year 2016-17. If this assumption does not come to fruition, the fund will be out of balance and a much larger rate increase will be needed in Fiscal Year 2017-18. This increase could be as high as 25.0 percent in order to maintain a positive operating balance and an adequate reserve. Based on current projections, an additional 6.0 percent is proposed for Fiscal Year 2017-18.

Wastewater

An overall 19.0 percent rate increase is proposed for Fiscal Year 2016-17, 17.0 percent of which is a result of the increase from the Treatment Plant for Fiscal Year 2016-17 and operating cost increases, and 2.0 percent is the third year of the phase-in of planned Treatment Plant capital costs. For Fiscal Years 2017-18 and 2018-19, an 8.0 percent rate increase in addition to any inflation adjustment and third-party (supplier) pass-through costs is proposed. For Fiscal Years 2019-20 and 2020-21, a 2.0 percent rate increase in addition to any inflation adjustment and third-party (supplier) pass-through costs is proposed.

Costs for the Treatment Plant are proposed to increase 25.9 percent for Fiscal Year 2016-17, resulting in the cost of wastewater treatment to be approximately 62.0 percent of the

total proposed operating expenditures. Due to \$1.3 million in unanticipated Treatment Plant costs assessed by Palo Alto in the current fiscal year that had not been budgeted, the fund is in a distressed financial condition. To fully fund the impact of the increase in Treatment Plant costs, the rate increase for Fiscal Year 2016-17 would need to be 26.0 percent. However, staff is recommending spreading the increase needed to stabilize the financial position of this fund over three years and utilizing half of the rate stabilization reserve over the next two fiscal years to balance the fund. Additional rate increases needed for Fiscal Years 2017-18 and 2018-19 are proposed at 6.0 percent each year.

As previously outlined, there are future capital expenditures forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0 percent is projected and Council approved a gradual phase-in of 2.0 percent annually for 10 years to fund these long-term capital costs. Fiscal Year 2016-17 is the third year and the annual additional 2.0 percent increase for Fiscal Years 2017-18 through 2020-21 is proposed.

Trash/Recycling

No overall rate increase is proposed for trash/recycling services; however, a 10.0 percent increase for cart rates is proposed to incorporate the Cost of Service (COS) Study phase-in for cart rates. A COS Study to review the rate structure and realign rates to reflect the true cost of collection and disposal was completed and the results were incorporated for Fiscal Year 2015-16 with the increase to bring cart revenues in line with the COS Study being phased-in over three years. Fiscal Year 2016-17 is the second of three years. For Fiscal Year 2017-18 a 10.0 percent rate increase in addition to any inflation adjustment and third-party (supplier) pass-through costs is proposed for the third and final year.

Fiscal Year 2016-17 is the fourth year of the new agreement with Recology and the contract provides for an increase based on the CPI which is 2.43 percent. SMaRT[®] Station costs are proposed to increase less than 1.0 percent. These increases, as well as increases in the cost of City programs and the annual maintenance projects, would support an overall average 2.0 percent rate increase. However, as the fund is in a stable financial condition, no increase other than the second year phase-in of cart rate increases resulting from the COS Study is proposed.

At a Study Session on April 26, 2016, Council was provided alternatives for implementing an organics collection program and the option of weekly recycling collection. An estimated cost and rate impact for each alternative was provided as well as the estimated cost and rate impact of weekly recycling collection. Included in the

rate noticing was a maximum rate increase of 20.0 percent for carts and 2.0 percent for bins and compactors which consists of the following: 10.0 percent cart rate increase for the Year 2 phase-in of COS Study results mentioned above, an additional 8.0 percent cart rate increase to implement the weekly organics collection program (the highest cost alternative), and a 2.0 percent increase for carts, bins, and compactors to increase recycling collection from every other week to weekly.

At the Study Session, Council showed interest in an organics collection program alternative and showed no interest in changing the recycling collection frequency. Staff will be returning to Council in fall 2016 with an update and a recommendation. This hearing includes the maximum rate increases set forth in the May 6, 2016 Proposition 218 notice in the event Council elects to implement an organics program and/or change the frequency of recycling collection and adopt rates consistent with the notice. Should Council decide to implement an organics collection program that would result in a rate increase above the maximum amount included in the May 6, 2016 Notice and hearing on June 21, 2016, the City would issue a new Proposition 218 Notice and hold another hearing.

These fees will be included in the resolution amending the City of Mountain View Master Fee Schedule to be adopted at the public hearing for adoption of the Fiscal Year 2016-17 Budgets, Appropriations Limit, and Fee Modifications scheduled after this public hearing on the June 21, 2016 agenda. If there is a majority protest, these fees will be removed from the resolution amending the Master Fee Schedule.

FISCAL IMPACT

The proposed rate increases are necessary to continue the operating and financial sustainability of the water, wastewater, and trash/recycling services provided.

ALTERNATIVES

1. Modify the proposed water, wastewater, and trash/recycling rate increases as presented.
2. Provide other direction.

PUBLIC NOTICING

Agenda posting and a notice of the public hearing was published in two newspapers of general circulation. In addition, notice of the rate increases was mailed to all customers.

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Attachment: 1. Notice of Public Hearing – Proposed Water, Wastewater, and
Trash/Recycling Rates Effective July 1, 2016