



COUNCIL REPORT

DATE: June 25, 2024

CATEGORY: Public Hearing

DEPT.: Finance and Administrative Services

TITLE: **Public Hearing on the Recommended Water, Wastewater, and Trash/Recycling/Organics Rate Increases**

RECOMMENDATION

Convene a public hearing to accept and consider public comments on recommended water, wastewater, and trash/recycling/organics rate increases.

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 the 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/organics services are considered property-related fees and 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 public hearing prior to adopting any changes in utility rates, at which time the governing body will consider public input on the recommended rates.

A notice must be mailed no later than 45 days prior to the public hearing and include the recommended rate adjustments, the calculation methodology, and a description of the process for submitting a protest vote to the rate adjustments. If written protest letters are received from a majority of the parties affected by the rate increases, the recommended increases cannot be imposed or 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 the City Council through the rate hearing process.

Staff has complied with the noticing requirements established by Proposition 218. In compliance with Proposition 218, on or before May 10, 2024, 45 days prior to the June 25, 2024 public hearing of the City Council, approximately 16,800 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 mailed, submitted in person at the City Clerk's Office in City Hall, or at the City Council meeting by the close of the public hearing on June 25, 2024. Written protests received prior to or during the public hearing will be counted at the public hearing, and a final tally will be given to the City Council after the hearing is closed. As of June 13, 2024, two protest letters have been received. A majority protest requires the number of protests received to be equal to 50% + 1 of those eligible to submit a protest, which equates to 8,398 protests. A majority protest would render the City unable to impose the rate increases.

As directed by City Council last year, in order to improve community outreach, 13,600 postcards were sent to all Community Stabilization and Fair Rent Act (CSFRA) occupants, informing them about the proposed utility rate changes.

ANALYSIS

Recommended utility rate increases were discussed at the June 11, 2024 public hearing on the Recommended Budget. During Fiscal Year 2023-24, the City conducted cost of service studies for all three utility services ("Cost-of-Service Studies" or "Cost-of-Service Study"). As such, rates are being adjusted to reflect the cost of services rather than across-the-board rate increases. In general, the City is recommending gradual rate increases over the next five years to provide adequate funding for operations and maintenance expenses, and high-priority capital improvements, including the rehabilitation and replacement of aging infrastructure. Mountain View's utilities are financially self-supporting enterprises that rely primarily on funds from service charges to fund the costs of providing services.

WATER RATES

The San Francisco Public Utilities Commission (SFPUC) notified the City of a proposed 8.8% increase in wholesale water rates and a 14.1% increase in meter rates effective July 1, 2024. These rates were adopted at SFPUC's public hearing on May 14, 2024. The Santa Clara Valley Water District (SCVWD) notified the City of a proposed 12.9% increase in the well water rate for Fiscal Year 2024-25, which corresponds to a 12.2% increase in the treated water rate as it is based on the well water rate plus \$115 per acre-foot surcharge. These rates were adopted at SCVWD's public hearing on May 14, 2024. Based on these increases and the Cost-of-Service Study, for Fiscal Year 2024-25, the recommended water rates account for an overall 6% revenue increase including adjustments to the rate structure to align rates with the cost of providing service. Due

to the initial rate structure adjustments, first-year impacts will vary based on account type, meter size, and billed usage.

The recommended water rates for future years include base annual rate increases of up to 2.5% for each of Fiscal Years 2025-26 through 2028-29 to gradually increase funding for water system operations and capital improvement needs. In addition, the City proposes to continue its historical practice of implementing additional annual pass-through rate adjustments to account for wholesale water rate increases from SFPUC and SCVWD and inflation pursuant to California Government Code Section 53756. The recommended recycled water consumption rate is increasing due to upcoming capital improvement costs and is recommended not to exceed 85% of the potable uniform water consumption charge through Fiscal Year 2028-29.

WASTEWATER (SEWER) RATES

The City of Palo Alto notified the City of a 3.2% proposed increase in its Treatment Plant budget for Fiscal Year 2024-25. Wastewater rates paid by Mountain View customers fund the cost of treating wastewater generated in the City of Mountain View at the Palo Alto Treatment Plant and costs to operate and maintain the City's sewer system. Based on these increases and the Cost-of-Service Study, for Fiscal Year 2024-25, the recommended wastewater rates account for an overall 3% revenue increase including adjustments to the rate structure to align rates with the cost of providing service. These rate structure adjustments are being phased-in over two years, and impacts will vary based on account type and billed usage. The rate includes a 2% increase for Treatment Plant capital costs.

The recommended wastewater rates for future years include phased-in rate structure adjustments for Fiscal Year 2025-26 and base annual rate increases of up to 2.5% for each of Fiscal Years 2025-26 through 2028-29, 0.5% to gradually increase funding for wastewater system operations and capital improvement needs, and up to 2% for Treatment Plant capital costs. The City has previously approved a 10-year funding plan for a 2% increase annually to fund future major renovations of the Treatment Plant. Fiscal Year 2023-24 was the tenth year. However, the City has been notified of significant capital cost increases, and staff recommends continuing the annual 2% increases for up to another five years. In addition, the City proposes to continue its historical practice of implementing additional annual pass-through rate adjustments to account for Treatment Plant operating increases and inflation.

TRASH/RECYCLING/ORGANICS RATES

The City contracts with Recology to provide trash, recyclables, and organics collection services in the City. A 4.87% rate increase is required for Fiscal Year 2024-25 based on projected expenditure increases and revenue requirements in accordance with the City's contract with Recology. The City's residential trash, residential recyclables, and commercial trash are processed at the

SMaRT® Station under a Memorandum of Understanding (MOU) between the City of Mountain View and the City of Sunnyvale. The MOU provides for the City to pay its proportional share of costs, which is estimated to increase 14.3% for Fiscal Year 2024-25.

Operations for services provided through both agreements include efforts to reduce the amount of waste sent to landfills as well as to abide by Senate Bill 1383, which mandates residential and commercial organics composting. As mentioned in prior budget reports, City operating costs increased significantly due to changes to include these efforts and resulted in an operating deficit. Also mentioned was that future higher increases would be needed to bring the operating budget in balance, but that there was sufficient available balance to absorb the operating deficit over a period of time. The above operator increases for Fiscal Year 2024-25 account for a 6% increase, and the Cost-of-Service Study shows the need to increase revenues by 10%.

The City is recommending to phase in the Cost-of-Service Study rate adjustments needed over three to four years as follows:

- The increase needed for residential carts that include compost services is 18% and will be spread over four years.
- The increase needed for multi-family and commercial carts, bins, and compactors that do not include compost services is 3.25% and will be implemented in Fiscal Year 2024-25.
- The increases needed for debris boxes is 7% and will be spread over three years.
- Compost and yard waste services will no longer be provided at a discount for commercial customers. Multi-family customers with shared trash carts or bins will begin paying for their compost services based on the number of containers and pickup frequency.

The recommended schedule of utility rates being recommended for adoption includes rates for the next five years, as well as the ability to annually adjust for pass-through supplier rate increases and Consumer Price Index (CPI) for Water and Wastewater (sewer) rates pursuant to California Government Code Section 53756. These fees are included in the resolution amending the City of Mountain View's Master Fee Schedule and is a part of the agenda item adopting the Fiscal Year 2024-25 Budgets, Appropriations Limit, and Fee Modifications, which is scheduled after this public hearing. If there is a majority protest, these fees will be removed from the resolution amending the Master Fee Schedule.

FISCAL IMPACT

The recommended rate increases are necessary to continue the operating and financial sustainability of the Water, Wastewater, and Solid Waste Funds and the services provided.

ALTERNATIVES

1. Modify the recommended rate increase 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: the *Daily Post* and *Mountain View Voice*. In addition, a notice of the rate increase was mailed to all utility account owners, in accordance with Proposition 218.

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GZ/4/CAM
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Attachment: 1. [Notice of Public Hearing—Recommended Water, Sewer, and Trash/Recycling/Organics Rates Effective July 1, 2024](#)