



STAFF REPORT

Date: April 15, 2014

To: Steven A. Preston, FAICP, City Manager

From: Daren Grilley, PE, City Engineer 

Subject: **Authorization to Proceed with Proposition 218 Notification and Public Hearing Process in Connection with Proposed Sewer User Fee**

SUMMARY

San Gabriel is one of few agencies that does not charge users for the operation and maintenance of its sanitary sewer utility. Only minimal maintenance is performed, while the great majority of the needed repairs and upgrades are unfunded. The scant funds allocated to sewer maintenance come from general funds that could be used for other programs such as street repair.

The sewer system is critical public infrastructure and adequate maintenance is necessary to keep it operating properly and to protect public health. Laws enacted by the State of California and the federal Clean Water Act mandate minimum standards for maintaining sewer systems. Agencies that do not meet these standards are subject to fines and third-party lawsuits.

With City Council authorization, staff has worked with a utility financing consultant to analyze potential utility rate structures to adequately fund the public sewer system. A property owner vote in accordance with Proposition 218 is required to enact such a fee.

Staff recommends that City Council authorize staff to proceed with a Proposition 218 notification and public hearing process in connection with the proposed sewer user fee, which if approved, would be effective July 2014.

I. BACKGROUND

The City of San Gabriel operates the 72-mile long municipal sewer collection system that serves all residents and businesses in the City. The City operates the sewer system under a state-issued

Waste Discharge Order that prescribes numerous requirements related to inspection, maintenance and capital construction intended to protect public health and water quality. Failure to meet the waste discharge requirements can result in administrative penalties including fines from the Regional Water Quality Control Board or third-party lawsuits under the federal Clean Water Act.

The sewer system is showing signs of age, including cracks, roots in pipes, offset or sagging pipe sections and build up of debris or grease. The condition of the system was evidenced in the Sewer Master Plan that identified \$30 million in capital repairs and upgrades are needed. With a dedicated source of revenue to the sewer utility, Public Works and Engineering could better protect the community from damaging overflows and reduce potential liability by meeting the state waste discharge requirements.

At a study session held August 17, 2010, Council concurred with the Sewer Master Plan recommendation to investigate the feasibility of implementing a sewer user fee. Such a fee would help bridge the sewer system funding gap and to stop the diversion of general funds to sewer operations, thus allowing these general fund monies to be used for other much needed projects or services. In June 2012, City Council approved a contract with Raftelis Financial Consultants (RFC) of Pasadena to collect and analyze data on the sewer system capital and maintenance needs, land usage, and sewage flow volumes. Using this information, RFC developed a financial plan, cost of service allocations and potential user fee rates that would allow the sewer utility to operate as a financially self-sufficient, stand-alone enterprise.

After considering the results of RFC's analysis and proposed fee alternatives at a study session held August 20, 2013, Council directed staff to refine the fee structure based on an equivalent of \$13 for a single-family residence.

II. ANALYSIS

The proposed sewer user fee is calculated per gallon of wastewater discharged using typical discharge rates for a particular land use type. All single-family residences are charged the same fixed rate, multi-family homes are charged based on the number of housing units, most commercial and industrial properties are charged based on the type of business and the area of the building. Public schools are charged based on number of students. Hotels are charged by number of rooms; hospitals and retirement homes by number of beds. The Los Angeles County Treasurer and Tax Collector would handle billing and collection of the sewer user fees.

A sewer use rate equivalent to \$13 per month (\$156 per year) for a single family home, would generate approximately \$2 million in revenue per year that, by law, could only be used for sewer utility operations and capital improvement projects. This rate would allow the Public Works Department to increase routine maintenance, inspections, and implementation of the fats, oils

and grease ordinance in compliance with the State Waste Discharge Requirements. In addition, approximately \$1.7 million each year would be directed to capital improvement needs including pipeline rehabilitation or replacement and manhole rehabilitation. These projects are necessary not only to ensure continued operation of the sewer system, but also to comply with the provisions of the pending consent judgment currently being negotiated with the Regional Water Quality Control Board and State Attorney General.

Proposition 13, enacted in 1978, put restrictions on the ability for local governments to impose new taxes or fees. Proposition 218, prepared by the Howard Jarvis Taxpayers Association and approved by voters in 1996, created a category of property-related user fees where a special benefit (e.g. sewer service) is provided and where the amount charged to any parcel does not exceed the proportional cost of the service which is attributable to the parcel. The Proposition 218 process requires that the city do the following:

- Identify all parcels upon which the fee will be imposed.
- Calculate the specific charges for each parcel.
- Provide written notice by mail to the record owner of each parcel.
- The notices must state the amount to be charged, the basis for calculating the fee, the reason for the fee, and state the date, time and place of the public hearing on the proposed fee. Property owners may return the ballot if they protest the proposed fee.
- Conduct a public hearing, not less than 45 days after notices are mailed.
- At the public hearing, the City Council must consider all protests against the fee.
- If written protests against the proposed fee are presented by a majority of property owners, then the fee cannot be imposed.
- If fewer than a majority of owners protest, the Council decides to approve or reject the sewer user fee.

An example of the notice is included as Attachment A. The cost to prepare and mail the notices is included in the contract with RFC previously approved by Council. With Council authorization, notices will be mailed to property owners by April 19, 2014 to allow for the 45-day notification period prior to a June 3, 2014 public hearing. If approved by property owners and the Council, the fee would take effect for FY2014/15 and appear on San Gabriel property tax bills mailed in the fall of 2014.

III. RECOMMENDATION

Staff recommends that City Council authorize staff to proceed with the Proposition 218 notification and public hearing process in connection with the proposed sewer user fee.



San Gabriel

NOTICE OF PUBLIC HEARING ON PROPOSED SEWER SERVICE CHARGE

<<Property Owner>>

<<Address>>

<<City>>, <<State>> <<Zip>>

The San Gabriel City Council will conduct a public hearing to consider adoption of a proposed sewer service charge on June 3, 2014. The hearing will be conducted at City Hall, 425 South Mission Dr at 7:30 pm.

對於本通知有關污水道使用費建議的說明，請聯繫市書記的辦公室 626-308-2800.

Para obtener una explicación de este aviso sobre el impuesto del uso de alcantarillado, por favor llame al 626-308-2800.

Need for Sewer Service Charges

The City is responsible for collecting wastewater (sewage) and conveying it to the Los Angeles County Sanitation District for treatment. Unlike most agencies, San Gabriel does not charge customers for use of the sewer system. The City currently funds the sewer system using general fund revenues. However, the general fund is not able to adequately fund the system.

In 2009, the City completed a Sewer Master Plan (Plan) to assess the system and begin steps toward improving the system. The Plan identified \$30 million dollars in needed capacity upgrades and structural repairs as well as a significant increase in the annual system operations and maintenance needs. The sewer collection system requires refurbishment and replacement to ensure proper operation and prevent overflows consistent with health and safety standards as well as State and Federal law. Failure to make these improvements will result in the City paying fines and penalties to the State and potential lawsuits from environmental groups.

To finance the expenditures the City engaged an independent consultant to prepare a Wastewater Rate and Fees Study. This effort included a detailed financial plan and development of a computer model used to assess the actual cost of providing wastewater collection services.

In order to operate and maintain the wastewater system, the City has developed a sewer user fee to recover the costs associated with the wastewater system and to continue to protect public health and the environment. The sewer service charge will allow the City to carry out required ongoing maintenance and capital projects as well as build a reserve for emergencies or unanticipated expenditures. The sewer service charge will be collected from users of the system. These charges will be collected annually by the County on your property tax bill, but they are a charge for service and not a tax.

Proposed Sewer Service Charge

Under the proposed financial plan, the City is projected to collect approximately \$2 million dollars in revenue per year. THIS REVENUE CAN ONLY BE USED TO OPERATE AND REPAIR THE SEWER SYSTEM. The rate for a single family home will be \$13 dollars per month (\$156 annually) collected on property tax bills. The charges for all customer types are attached as Exhibit A to this Notice. The charges will be implemented in Fiscal Year 2014-15 and will appear on property tax bills mailed by the LA County Assessor in fall 2014.

Procedures for Filing a Written Protest

Protests to the proposed sewer service charge described above must be received by the City Clerk in writing **by 5:00 p.m. on June 3, 2014.** Written protests will also be accepted at the public hearing. All written protests must be signed by the owner and contain a description of the property (address and/or Assessor Parcel Number). You may mail your written protest to:

**Attn: City Clerk, City of San Gabriel
425 South Mission Dr
San Gabriel, CA 91776**

Protests will NOT be accepted by e-mail. At the time of the public hearing, the City will tabulate all of the written protests. If written protests against the proposed rates as outlined in Exhibit A are not presented by a majority of property owners within the City’s service area boundary, the City Council will be authorized to impose the new sewer rates. The City Council will then consider and may adopt an ordinance or resolution implementing the rates.

YOU MAY USE THIS FORM TO PROTEST THE PROPOSED SEWER SERVICE CHARGE

I _____ protest the proposed sewer service charge.

Signature: _____

Address: << <u>123 A Street</u> >>
Assessor Parcel No.:<< <u>1234-567-890</u> >>
Sewer User Fee: << <u>\$13.00</u> >> per month (<< <u>\$156.00</u> >> per year)

EXHIBIT A

CITY OF SAN GABRIEL – PROPOSED SEWER SERVICE CHARGE BY CUSTOMER TYPE

RESIDENTIAL	Monthly Charge	Annual Charge
Single Family Residential	\$13.00	\$156.00
Duplex	\$15.60	\$187.20
Triplex	\$23.40	\$280.80
Fourplex	\$31.20	\$374.40
Five Units or More	\$7.80 per unit	\$93.60 per unit
Condominiums	\$9.75 per unit	\$117.00 per unit

NON-RESIDENTIAL, BY BUILDING AREA	Basis for Charge	Monthly Charge per 1,000sq ft	Annual Charge per 1,000sq ft
Animal Kennels	Building Area	\$5.00	\$60.00
Auditorium, Amusement	Building Area	\$17.50	\$210.00
Auto Sales/Repair	Building Area	\$5.00	\$60.00
Car Wash (no Recycle)	Building Area	\$185.00	\$2,220.00
Club	Building Area	\$1.00	\$12.00
Financial Institution	Building Area	\$5.00	\$60.00
Golf Course, Camp, and Park (Structures & Improvements)	Building Area	\$5.00	\$60.00
Manufacturing	Building Area	\$10.00	\$120.00
Mortuary/Cemetery	Building Area	\$5.00	\$60.00
Office Building	Building Area	\$10.00	\$120.00
Open Storage	Building Area	\$1.25	\$15.00
Professional Building	Building Area	\$15.00	\$180.00
Restaurant	Building Area	\$50.00	\$600.00
Service Shop	Building Area	\$5.00	\$60.00
Service Station	Building Area	\$5.00	\$60.00
Shopping Center	Building Area	\$16.30	\$195.60
Store	Building Area	\$5.00	\$60.00
Supermarket	Building Area	\$5.00	\$60.00
Warehousing	Building Area	\$1.25	\$15.00
Church (noncharitable)	Building Area	\$2.50	\$30.00
Private School	Building Area	\$10.00	\$120.00

NON-RESIDENTIAL, BY OTHER MEASURE	Basis for Charge	Monthly Charge per	Annual Charge per
School - High School	No. of Students	\$0.60 per Student	\$7.20 per Student
School - Jr High / Elementary	No. of Students	\$0.40 per Student	\$4.80 per Student
Hotel/Motel/Rooming House	No. of Rooms	\$5.00 per Room	\$60.00 per Room
Hospitals	No. of Beds	\$3.75 per Bed	\$45.00 per Bed
Convalescent Home	No. of Beds	\$4.50 per Bed	\$54.00 per Bed