



City Council Staff Report

DATE: April 2, 2014

AGENDA ITEM NO: **New Business**
Agenda Item 6-A.

TO: The Honorable Mayor and City Council
FROM: Chu Thai, Director of Management Services
SUBJECT: Choose proposed rates for water, wastewater and solid waste for Fiscal Year 2014-15 through Fiscal Year 2018-19

RECOMMENDATION:

It is recommended that the City Council:

1. Choose proposed water rates for FY 2014-15 to FY 2018-19;
2. Choose proposed wastewater rates for FY 2014-15 to FY 2018-19;
3. Choose proposed solid waste rates for FY 2014-15 to FY 2018-19; and
4. Take such additional, related, action that may be desirable.

EXECUTIVE SUMMARY:

The September 2012 engineering study titled *Water System Financial Evaluation and Water Rate Recommendations* proposed water rate increases to support a \$99.9 million water capital improvement program. A January 2014 engineering study titled *Wastewater Collection System Master Plan Update* proposed sewer rate increases that supports \$12.8 million in sewer system repairs and rehabilitation for the 35% of the City's sewer system that was analyzed. This does not address the 65% of the sewer system to be yet analyzed. Staff analysis shows solid waste enterprise fund expenses exceeding revenues by \$1 million. This requires a 15% solid waste rate increase to balance the budget. These reports were presented at the March 19, 2014, City Council meeting. They are also available for review at the Management Services' Support Services Division and the City's website.

A Proposition 218 approval process is required to before proposed rate increases become effective. The City may increase water, wastewater and solid waste rates not to exceed the proportional cost of the service attributable to the parcel, and for a maximum of five years. Staff should conduct another rate study within five years to assure that current rates generate adequate revenues to support the water, wastewater and solid waste systems.

BACKGROUND:

Proposed Water Rates

The existing water rates, which have been unchanged since October 1, 2009, generate approximately \$10.6 million annually. Water rates must be adjusted to generate \$14 million-\$20 million per year to repair, replace or rehabilitate the water system.

The 2012 *Water System Financial Evaluation and Water Rate Recommendations* report proposed three alternative rate increases to support the \$99.9 million water capital improvement program. They all propose similar meter charges for September 2014. A fixed meter charge provides revenue stability needed to maintain water system operations. The three rate alternatives vary in proposed consumption charges, affect consumers differently and provide different Capital Improvement Project (“CIP”) outcomes.

Alternative 1 would construct \$8.3 million per year in CIP using a pay-as-you-go system. This alternative would complete the \$99.9 million CIP within 12 years. Alternative 1 will increase the average residential water bill from \$28.82 to \$75.01 per month, based on a 5/8" or 3/4" water meter and 12 units of water consumption per month. One unit is 748 gallons of water. After the initial rate increase, Alternative 1 proposes annual rate increases of 3% to keep up with inflation. A 3-tier ascending block consumption charge is established for the single-family residential customers, and a constant rate is set up for all other customers as below.

City of Monterey Park					
Alternative 1 – \$8.3 Million Annual CIP					
	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
EXPENDITURES					
Water Operations	7,976,000	8,215,280	8,461,738	8,715,591	8,977,059
Water Treatment	3,815,000	3,929,450	4,047,334	4,168,754	4,293,816
CIP	<u>8,000,000</u>	<u>8,240,000</u>	<u>8,487,200</u>	<u>8,741,816</u>	<u>9,004,070</u>
Total Expenditures	19,791,000	20,384,730	20,996,272	21,626,161	22,274,945
REVENUES					
Service Charges	4,220,000	4,346,600	4,476,998	4,611,308	4,749,647
Consumption + Treatment	<u>15,886,000</u>	<u>16,362,580</u>	<u>16,853,457</u>	<u>17,359,061</u>	<u>17,879,833</u>
Total Revenues	20,106,000	20,709,180	21,330,455	21,970,369	22,629,480
Fund Balance	315,000	639,451	793,635	1,317,884	1,672,380
Annual Rate Increases	1.03	1.03	1.03	1.03	1.03
Average Monthly Water Bill	\$75.01	\$77.26	\$79.58	\$81.97	\$84.42

Alternative 2 would construct \$5.3 million per year in CIP using a pay-as-you-go system, and complete the \$99.9 million CIP within 19 years. Under Alternative 2, a Monterey Park residential water customer will pay on average \$9.76 less per month (\$65.25 versus \$75.01) than someone under Alternative 1. However, this alternative also reduces the water fund's revenues by approximately \$3 million per year.

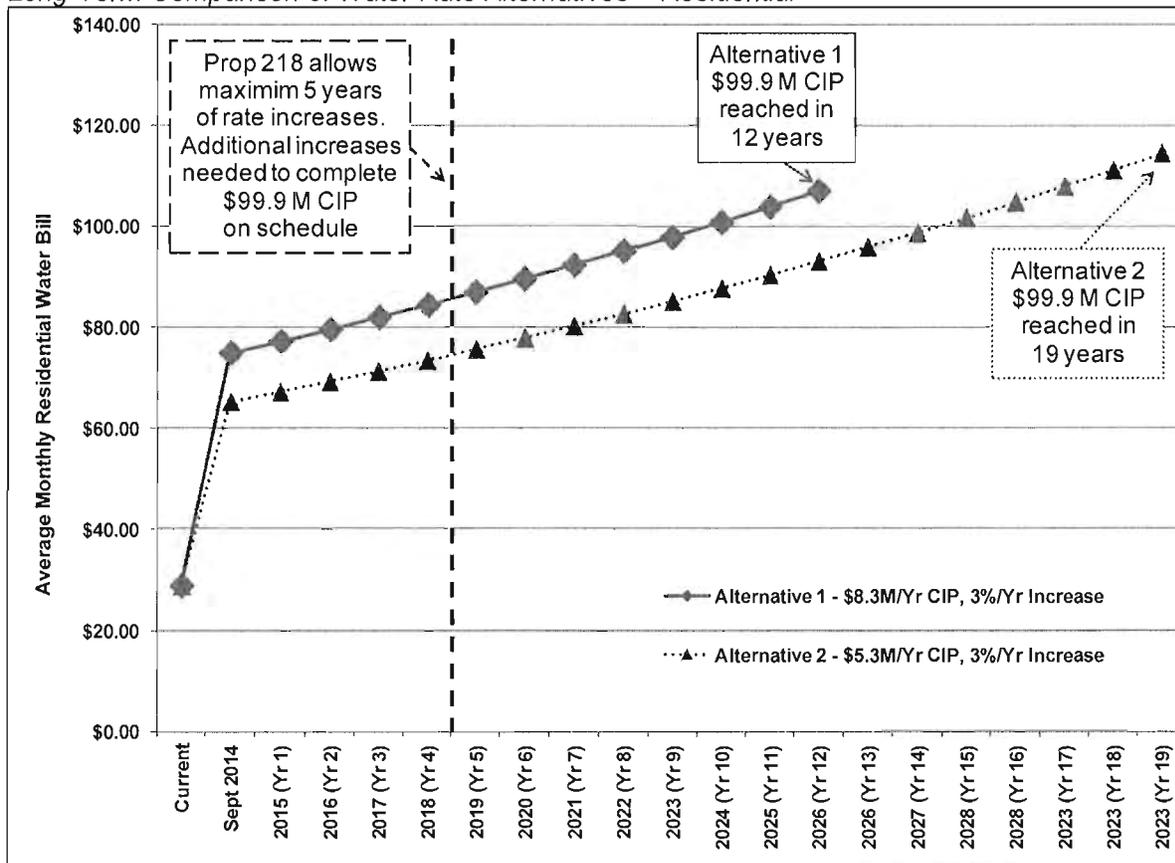
City of Monterey Park					
Alternative 2 – \$5.3 Million Annual CIP					
	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
EXPENDITURES					
Water Operations	7,976,000	8,215,280	8,461,738	8,715,591	8,977,058
Water Treatment	3,815,000	3,929,450	4,047,334	4,168,754	4,293,816
CIP	<u>5,000,000</u>	<u>5,150,000</u>	<u>5,304,500</u>	<u>5,463,635</u>	<u>5,627,544</u>
Total Expenditures	16,791,000	17,294,730	17,813,572	18,347,980	18,898,418
REVENUES					
Service Charges	4,220,000	4,346,600	4,476,998	4,611,308	4,749,647
Consumption + Treatment	<u>12,695,721</u>	<u>13,076,593</u>	<u>13,468,890</u>	<u>13,872,957</u>	<u>14,289,146</u>
Total Revenues	16,915,721	17,423,193	17,945,888	18,484,265	19,038,793
Fund Balance	124,721	253,183	385,499	521,784	662,158
Annual Rate Increases	1.03	1.03	1.03	1.03	1.03
Average Monthly Water Bill	\$65.25	\$67.21	\$69.22	\$71.30	\$73.44

For informational purposes, the chart below compares the current and proposed average monthly water bills for single family residential accounts (5/8" and 3/4" meter with 12 units of water consumed each month). Monterey Park's average monthly bills include the meter charges, consumption charges and water treatment charges.

Municipal Water Rate Comparison - Residential

Water Agency	Existing Bill	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018	5 year CIP
MPK Alternative 1 \$8.3 M/yr CIP	\$28.82	\$75.01	\$77.26	\$79.58	\$81.97	\$84.42	\$42.5 million
MPK Alternative 2 \$5.3 M/yr CIP	\$28.82	\$65.25	\$67.21	\$69.22	\$71.30	\$73.44	\$26.5 million
California Water Service Company	\$53.52						
Golden State Water Company	\$54.05						
San Gabriel Water Company	\$55.31						
City of Covina	\$60.71						
City of Alhambra	\$46.36						
City of South Pasadena	\$61.79						

Long-Term Comparison of Water Rate Alternatives – Residential



Proposed Wastewater Rates

A January 2014 engineering study titled Wastewater Collection System Master Plan Update provided the City with a comprehensive assessment of Monterey Park's wastewater system. The report proposed \$12.8 million in wastewater CIPs within a 10 year timeframe, and based it on analysis of 35% of the wastewater system. Staff and consultant estimate total CIP costs to be significantly higher, given the age and condition of the City's sewer system. As more sewer lines are inspected, additional CIP projects will be identified, and rates will be examined for additional adjustment.

The City's current sewer charge is \$0.0810 per 100 cubic feet of water used, and generates approximately \$300,000 per fiscal year. The September 2012 engineering study titled Sewer System Financial Evaluation and Sewer Rate Recommendations proposed transitioning from a consumption based wastewater rate towards a customer and meter sized based fixed sewer rate. Staff recommends a fixed rate for wastewater because it provides more steady revenue collection.

For informational purposes, the chart below compares the current average monthly sewer bills for a single family residential (5/8" and 3/4" meter) account. Monterey Park's current sewer charge is \$0.081 per unit of metered water used. Monterey Park's proposed sewer charge will be based on the type of customer and size of water meter used.

Municipal Wastewater Rate Comparison - Residential

Wastewater Charge	Existing Bill	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018	5 year CIP
City of Monterey Park	\$1.86	\$7.69	\$10.00	\$12.50	\$14.00	\$15.68	\$12.8 million
City of Alhambra	\$11.93						
City of South Pasadena	\$12.92						
City of Azusa	\$11.18						
City of Downey	\$7.08						
City of Whittier	\$7.06						

Staff proposes completing the \$12.8 million in wastewater CIP within five years, since it only addresses 35% of the sewer system. Part of the sewer capital program includes video inspection of the remaining 65% of sewer pipelines. The additional inspection will likely point out new problems in the system. Aside from repairing the identified problems in the system, the City should have financial reserves set aside to prepare for future repairs.

Proposed Solid Waste Rates

The Fiscal Year 2013-14 Mid Year Review Report presented by staff projects FY 2014-15 refuse fund revenues at \$5.8 million and operating expenses at \$6.8 million. This \$1 million net loss in the refuse fund supports the need to increase solid waste rates by 15%. Existing solid waste rates have been unchanged since October 1, 2009.

For informational purposes, the chart below compares the current and proposed monthly solid waste bills for residential accounts with one 96 gallon trash and one 96 gallon recycle containers.

Municipal Solid Waste Rate Comparison - Residential

Agency	Existing Bill	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
City of Monterey Park	\$19.54	\$22.47	\$23.15	\$23.84	\$24.55	\$25.29
City of Alhambra	\$21.45					
City of South Pasadena	\$40.84					
City of Azusa	\$22.16					
City of Downey	\$17.27					
City of Whittier	\$21.92					

Notice of Public Hearing

Attachment 1 is a draft notice that will be mailed to Monterey Park property owners and utility users. After the City Council chooses the proposed utility rate for consideration, staff will work with the City Attorney to finalize the notice.

FISCAL IMPACT:

Water revenues may increase up to \$10 million per year to support water system repairs. Wastewater revenues may increase approximately \$2.5 million per year to support sewer repairs. Solid waste revenues may increase by \$1 million per year to fully offset solid waste expenses.

Respectfully submitted by:



Chu Thai
Director of Management Services

Approved by:



Paul L. Talbot
City Manager

Reviewed by:



Karl H. Berger
Assistant City Attorney

ATTACHMENT:

1. Draft City of Monterey Park Notice of Public Hearing

ATTACHMENT 1
Draft City of Monterey Park
Notice of Public Hearing



**THIS NOTICE IS SENT TO ALL PROPERTY OWNERS AND UTILITY CUSTOMERS IN
MONTEREY PARK – YOU MAY RECEIVE DUPLICATE LETTERS**

**CITY OF MONTEREY PARK NOTICE OF PUBLIC HEARING ON PROPOSED
CHANGES IN WATER WASTEWATER AND SOLID WASTE CHARGES**

Proposed Water Rate Increases

TAKE NOTICE that a public hearing will be held by the City of Monterey Park City Council regarding proposed increases to bi-monthly water, wastewater and solid waste rates for all City of Monterey Park property owners and tenants.

The public hearing will be held on Wednesday, June 18, 2014, at 7:00 p.m. or as soon thereafter as the matter can be heard that day, in the Council Chambers of Monterey Park City Hall, 320 West Newmark Avenue, Monterey Park, California. During the public hearing, City Council will hear and consider all objections, if any, to the proposed rate increases.

To ensure that everyone potentially affected by proposed rate increases is notified, this notice is being sent to all property owners or customers of water, wastewater (sewer) or solid waste (refuse) service from the City of Monterey Park (City). Therefore, you may receive multiple copies of this notice if you are both the property owner as well as customer. If adopted, the proposed rate increases would become effective September 1, 2014. The proposed rates are set out in the charts included in this notice.

The City must raise rates to repair the deteriorating water and sewer system, and maintain a cost neutral solid waste system. A water engineering study presented a need to replace almost \$100 million in water projects, which includes replacing a water reservoir, two wells and over 50 miles of pipelines. Water main failures occur between 25-36 times each year. These failures disrupt the daily lives of Monterey Park residents, and are costly to repair. Two sewer engineering studies show a need to conduct \$12.8 million in sewer repairs and improvements. This represents only 35% of the City's 126 miles of sewer pipeline, and the remaining 65% will be inspected for future rate increase consideration. The City currently collects \$5.8 million per year in solid waste revenues and require \$6.8 million to operate residential trash collection. Other factors that require the City to increase its water, wastewater and solid waste service rates include, without limitation, new and increasingly stringent State and Federal environmental regulations, higher operating and utility costs and change in customer demand of the system.

As an example, utility bills would increase for a typical single family home as shown in Table 1.

Table 1: Proposed Rates (Monthly) – Impact on Typical Single Family Residential Customer⁽¹⁾

Utility	Current Monthly Bill	Sept 2014 Estimated	Sept 2015 Estimated	Sept 2016 Estimated	Sept 2017 Estimated	Sept 2018 Estimated
Water	\$28.82	\$75.01	\$77.26	\$79.58	\$81.97	\$84.42
Wastewater	\$1.86	\$7.69	\$10.00	\$12.50	\$14.00	\$15.68
Solid Waste	\$19.54	\$22.47	\$23.15	\$23.84	\$24.55	\$25.29
TOTAL	\$50.22	\$105.17	\$110.41	\$115.92	\$120.52	\$125.39

⁽¹⁾Typical single family residential customer has 5/8" or 3/4" water meter and consumes 12 units of water per month. Customer has one 96 gallon trash and one 96 gallon recycle container.

**COMPLETE RATE SCHEDULES AND PROPOSED INCREASES FOR EACH APPLICABLE
UTILITY BY CUSTOMER TYPE ARE SHOWN ON THE ATTACHED PAGES.**

The water rate is a combination of a fixed meter charge plus a consumption charge calculated by units (748 gallons) of metered water usage. The meter charge is dependent on type of property and meter size. The consumption charge varies depending on how much water is consumed. There is also a water treatment charge calculated as a percent of meter charge plus consumption charge. The wastewater rate is a fixed charge based on type of property and meter size. For solid waste rates, single family residential solid waste rates are based on the type and size of solid waste containers. Solid waste charges for multi-family trash bins are based on the number of pick-ups per week.

The proposed rates are based upon the revenues needed to meet projected operating expenses for the period of July 2013 to June 2019. California law requires the City to set rates sufficient to cover operating expenses and to fund for replacement or construction of facilities. Water charges may be used by the City only to provide water services. Wastewater charges may only be used by the City only to provide wastewater services, and solid waste charges may only be used for solid waste services.

The calculation of and reasons for the rate increase are analyzed and supported in the rate studies prepared by AKM Consulting Engineers and Phoenix Civil Engineering, Inc., the City's Mid Year Review Report for Fiscal Year 2013-14, and various staff reports and presentations to the City Council in March and April 2014. These reports are available for public review at Monterey Park City Hall and online at www.montereypark.ca.gov.

Compliance with Proposition 218

In 1996 California voters approved Proposition 218, which amended the state constitution relating to passage of property related fees. Proposition 218 requires the City to inform property owners and rate payers that 1) proposed rate increases are being considered; 2) clearly demonstrate the basis on which the rates are calculated; and 3) hold a public hearing at least 45 days after public notification. Utility rate increases are subject to majority protest. If a majority of impacted property owners submit written protests, the proposed rate increases cannot be adopted.

To protest against the water, wastewater and solid waste rate increases, please complete and return the enclosed official ballot to the City of Monterey Park. Your protest must be received (not postmarked) by the City Clerk of the City of Monterey Park before the close of the public hearing at the City Council meeting set for Wednesday, June 18, 2014, at 7:00 p.m. Oral, telephone, and e-mail protests will not be accepted. The protest must be signed by you and include: 1) your name, 2) your service street address or assessor's parcel number(s) and 3) specify which rate you are protesting. You may mail or deliver your written ballot to: City of Monterey Park, Office of the City Clerk, 320 West Newmark Ave, Monterey Park, CA 91754. The City can provide you with a replacement protest ballot upon request. **Only one ballot protest will be counted per parcel.**

For questions regarding this notice, contact the Management Services Department at (626) 307-####

OFFICIAL BALLOT ENCLOSED

Protest Form: Property owners or an authorized representative may complete this form and deliver it to the City of Monterey Park, Office of the City Clerk, 320 West Newmark Ave, Monterey Park, CA 91754. This ballot must be received before the close of the City Council public hearing set for Wednesday, June 18, 2014

Assessor's Parcel Number (####-###-###)

Parcel Address:### #####
#####, ## #####

- I Protest the proposed water rate increase
- I Protest the proposed wastewater rate increase
- I Protest the proposed solid waste rate increase

Print Name: _____

Sign Name: _____

Current and Proposed Water Rates

City of Monterey Park

Monthly Water Rate Schedule

Water Meter Charge						
<i>Meter Size</i>	Existing Rate	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
5/8 or 3/4"	\$12.63	\$20.30	\$20.91	\$21.54	\$22.18	\$22.85
1"	\$13.67	\$33.83	\$34.84	\$35.89	\$36.97	\$38.08
1 1/2"	\$21.53	\$67.67	\$69.70	\$71.79	\$73.94	\$76.16
2"	\$27.71	\$108.27	\$111.52	\$114.86	\$118.31	\$121.86
3"	\$55.48	\$203.01	\$209.10	\$215.37	\$221.83	\$228.49
4"	\$91.72	\$338.34	\$348.49	\$358.94	\$369.71	\$380.80
6"	\$280.07	\$676.69	\$696.99	\$717.90	\$739.44	\$761.62
8"	\$700.44	\$1,082.70	\$1,115.18	\$1,148.64	\$1,183.10	\$1,218.59
Alternative 1 – Water Consumption Charge (per unit)						
	Existing Rate	September 2014	September 2015	September 2016	September 2017	September 2018
Tier 1 5/8" or 3/4" (6-20 units)	\$1.38					
Tier 1 All other (0-20 units)	\$1.38					
Tier 2 (above 20 units)	\$1.81					
<u>Residential (Based on 5/8" or 3/4")</u>						
Tier 1 (0-6 units)	\$0.00	\$2.75	\$2.83	\$2.92	\$3.00	\$3.10
Tier 2 (6-12 units)	\$1.38	\$2.95	\$3.04	\$3.13	\$3.22	\$3.32
Tier 3 (Above 12 units)	\$1.81	\$3.05	\$3.14	\$3.24	\$3.33	\$3.43
<u>Non-Single Family Residential</u>						
All Units of Consumption		\$3.05	\$3.14	\$3.24	\$3.33	\$3.43
Water Treatment Charge						
% (meter + consumption)	35%	35%	35%	35%	35%	35%

One Unit = 748 gallons of water

Current and Proposed Wastewater Rates

City of Monterey Park

Monthly Wastewater Rate Schedule

	Existing Rate	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
Existing Rate - Based on Units of Water						
All Customers	\$0.081/unit of water					
Proposed Rate - Based on Meter Size & Customer Type (flat fee)						
Single Family						
5/8" & 3/4"	\$7.69	\$10.00	\$12.50	\$14.00	\$15.68	
1"	\$9.39	\$12.21	\$15.26	\$17.09	\$19.14	
1 1/2" & 2"	\$9.72	\$12.64	\$15.80	\$17.69	\$19.81	
Multi-Family						
3/4"	\$21.94	\$28.52	\$35.65	\$39.93	\$44.72	
1"	\$26.29	\$34.18	\$42.72	\$47.85	\$53.59	
1 1/4"	\$43.29	\$56.28	\$70.35	\$78.79	\$88.24	
1 1/2"	\$63.63	\$82.72	\$103.40	\$115.81	\$129.70	
2"	\$121.90	\$158.47	\$198.09	\$221.86	\$248.48	
3"	\$312.30	\$405.99	\$507.49	\$568.39	\$636.59	
4"	\$404.01	\$525.21	\$656.52	\$735.30	\$823.53	
Commercial						
3/4"	\$20.49	\$26.64	\$33.30	\$37.29	\$41.77	
1"	\$30.76	\$39.99	\$49.99	\$55.98	\$62.70	
1 1/4"	\$30.76	\$39.99	\$49.99	\$55.98	\$62.70	
1 1/2"	\$59.29	\$77.08	\$96.35	\$107.91	\$120.86	
2"	\$150.45	\$195.59	\$244.48	\$273.82	\$306.68	
3"	\$204.67	\$266.07	\$332.59	\$372.50	\$417.20	
4"	\$292.39	\$380.11	\$475.13	\$532.15	\$596.01	
6"	\$795.62	\$1,034.31	\$1,292.88	\$1,448.03	\$1,621.79	
Institutional						
3/4"	\$35.00	\$45.50	\$56.88	\$63.70	\$71.34	
2"	\$51.78	\$67.31	\$84.14	\$94.24	\$105.55	
3"	\$55.42	\$72.05	\$90.06	\$100.86	\$112.97	
4"	\$127.24	\$165.41	\$206.77	\$231.58	\$259.37	
Lifeline						
All Meter Sizes	\$7.01	\$9.11	\$11.39	\$12.76	\$14.29	

Current and Proposed Solid Waste Rates

City of Monterey Park

Monthly Solid Waste Rate Schedule

	Existing Rate	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
<u>Residential</u>						
96 black / 96 green	19.54	22.47	23.15	23.84	24.55	25.29
96 black / 64 green	19.00	21.85	22.51	23.18	23.88	24.59
64 black / 96 green	18.26	21.00	21.63	22.28	22.95	23.63
64 black / 64 green	17.76	20.42	21.04	21.67	22.32	22.99
Extra Black	4.96	5.70	5.88	6.05	6.23	6.42
extra Green	3.30	3.80	3.91	4.03	4.15	4.27
Roll-out	15.60	17.94	18.48	19.03	19.60	20.19
Extra Exchange	25.96	29.85	30.75	31.67	32.62	33.60
<u>Multi-Family Bins</u>						
1 X per Week	165.67	190.52	196.24	202.12	208.19	214.43
2 X per Week	234.31	269.46	277.54	285.87	294.44	303.28
3 X per Week	331.10	380.77	392.19	403.95	416.07	428.55
4 X per Week	420.27	483.31	497.81	512.74	528.13	543.97
5 X per Week	504.87	580.60	598.02	615.96	634.44	653.47
Special Services	80.17	92.20	94.96	97.81	100.74	103.77