



REPORT to the MAYOR and MEMBERS of the CITY COUNCIL
From the CITY MANAGER

DATE: May 24, 2022

SUBJECT: ORDINANCE AMENDING SECTION 17.12 OF THE LA MESA MUNICIPAL CODE TO ADJUST THE SEWER SERVICE RATES FOR FISCAL YEARS 2023, 2024 AND 2025

ISSUING DEPARTMENT: Public Works

SUMMARY:

Issues:

Should the City Council approve the proposed sewer rates and adopt an ordinance amending Chapter 17.12 of the La Mesa Municipal Code to adjust the sewer rates for Fiscal Years 2023, 2024 and 2025?

Recommendation:

Staff recommends that the City Council approve the proposed sewer rates and adopt an ordinance amending Chapter 17.12 of the La Mesa Municipal Code to adjust the sewer rates for Fiscal Years 2023, 2024 and 2025.

Fiscal Impact:

If approved, the proposed rates would generate sufficient revenue to fund the City's wastewater utility at the levels identified in this report for Fiscal Years 2023, 2024 and 2025.

The sewer fund is an enterprise fund and therefore any rate adjustments would have no fiscal impact on the General Fund.

City's Strategic Goals:

- Continue to improve high quality municipal services
- Maintain a financially sound and affordable city government

BACKGROUND:

Sewer charges are calculated to meet the revenue needs of the sewer fund in compliance with Section 204(b)(1) of the federal Clean Water Act. The Act requires that recipients of wastewater treatment services pay their proportionate share of the costs. In accordance with Section 5471 of the California Health and Safety Code, revenues derived from sewer fees are used solely for the purpose of covering program costs and expenses related to operating the City's sewer utility including sewer treatment and transportation, operation and maintenance activities, capital improvements, program administration, regulatory compliance, and program financing. Furthermore, as a recipient of a State Revolving Fund (SRF) loan, La Mesa is also required to maintain compliance with the revenue program guidelines and policies established by the State.

While the City of La Mesa operates the sewer collection system, sewage treatment is performed by the San Diego Metropolitan Wastewater System for which the City of La Mesa pays fees on a quarterly basis. These sewerage treatment fees represent the approximately 48% of the La Mesa sewer system operation costs.

In 2019, the City Council approved rate increases of 5.25% for Fiscal Year 2020 and 5.50% for Fiscal Year 2021 in anticipation of the ongoing cost increases related to the San Diego Metropolitan Wastewater System and in particular the Pure Water Program, which is a multi-year capital construction program that will convert 83 million gallons a day of wastewater to potable drinking water.

No sewer rate increase was presented to the City Council for Fiscal Year 2022 due to Pure Water construction delays and economic impact of the pandemic.

Proposition 218 Process

Prior to bringing a sewer rate adjustment to the City Council for approval, the City is required to follow the notification and public hearing requirements set forth under Proposition 218. The Proposition 218 process requires that written notification be given to all affected property owners, and that those property owners be given a 45-day period in which to submit written protests if they oppose the proposed rate adjustments. If written protests are received by a majority of affected property owners, the proposed adjustments may not be made.

On March 22, 2022, the City Council authorized staff to mail a notice of public hearing to all Le Mesa property owners affected by the proposed sewer rate increase as required by Proposition 218. There are 15,376 parcels within the City of La Mesa service area.

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To meet the 45-day noticing requirement of Prop 218, notices were mailed to parcel owners on April 7, 2022. The public hearing notice was also published in the East County Californian on May 12, 2022 and May 19, 2022.

Written protest from 7,688 property owners would meet the protest requirement of Proposition 218 and would stop the rates being considered by the City Council. At the time this report was prepared, staff had received 45 letters or protest. The letters received by the City Clerk's Office before May 20, 2022 are attached to this staff report as Attachment B. If by the close of the public hearing, written protests are not filed by the majority of the owners of the affected parcels, the City Council may authorize the sewer rate adjustments with a **four-fifths affirmative vote**. The ordinance amendment would require a second reading at the next Council meeting and the new rate would take effect in Fiscal Year 2023.

DISCUSSION:

The purpose of this report is to request approval of the City Council to amend Section 17.12 of the La Mesa Municipal Code to adjust the sewer rates for Fiscal Years 2023, 2024 and 2025. The information provided in this report illustrates the need for an incremental rate adjustment to keep up with anticipated costs, maintain the debt service coverage ratio required by the State Revolving Fund (SRF) loan program, and maintain a minimum sewer fund reserve for 75 operational days or 21% of expenditures.

A financial review of the wastewater fund is completed every two years to ensure that the fund maintains a positive balance and that adequate financial resources are available as needed. The financial information provided in this report is for a five-year period with actual figures for fiscal year 2021, estimated amounts provided for fiscal year 2022 and projected amounts for 2023, 2024 and 2025 at the proposed sewer rates. Table 1 shows the proposed annual revenue and operating expenses for the wastewater fund with the proposed rate increases

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SEWER FUND OVERVIEW	ACTUAL FY20	ACTUAL FY21	ESTIMATED FY22	PROJECTED FY23	PROJECTED FY24	PROJECTED FY25
REVENUE:						
Sewer Connection Fees	\$1,406,977	\$99,983	\$400,000	\$400,000	\$400,000	\$400,000
Charges for Services	\$11,835,983	\$12,334,749	\$12,594,426	\$13,115,037	\$13,500,798	\$13,576,559
Other Revenue	\$315,560	\$3,507	\$208,498	\$216,633	\$216,633	\$216,633
SUBTOTAL - Revenue	\$13,558,520	\$12,438,239	\$13,202,924	\$13,731,670	\$14,117,431	\$14,193,192
WASTEWATER FUND EXPENDITURES	ACTUAL FY20	ACTUAL FY21	ESTIMATED FY22	PROJECTED FY23	PROJECTED FY24	PROJECTED FY25
OPERATING EXPENSES:						
Metro Sewer Costs	\$7,160,830	\$6,748,430	\$6,874,270	\$6,957,680	\$6,961,130	\$6,966,110
Operation and Maintenance	\$3,017,596	\$2,994,236	\$3,305,706	\$3,382,123	\$3,444,335	\$3,518,768
Capital Improvements	\$1,000,000	\$900,000	\$1,000,000	\$400,000	\$400,000	\$400,000
Insurance/ Support Svcs	\$1,536,900	\$1,681,200	\$1,681,200	\$1,681,200	\$1,681,200	\$1,681,100
Debt Service	\$1,248,104	\$1,249,184	\$1,373,344	\$1,534,397	\$1,678,955	\$1,664,372
SUBTOTAL - Operating Expenses	\$13,963,430	\$13,573,050	\$14,234,520	\$13,955,400	\$14,165,620	\$14,230,350
NET (Revenue - Expenses)	(\$404,910)	(\$1,134,811)	(\$1,031,596)	(\$223,730)	(\$48,189)	(\$37,158)
Wastewater Fund Ending Balance	\$7,409,294	\$5,580,478	\$4,260,026	\$3,678,229	\$3,320,432	\$2,903,025
21% Operating Budget - Min. Reserve	\$2,399,571	\$2,308,289	\$2,388,393	\$2,446,085	\$2,489,393	\$2,627,897

Table 1

Revenue

Revenue is divided into three main categories:

- Sewer connection fees
 - Sewer connection fees are paid by new private development as their proportional contribution to the cost of construction of the existing wastewater collection system. Revenues from connection fees are difficult to estimate and can vary considerably from year to year because of the economy and development permit timing.
- Charges for sewer service
 - Charges for sewer service represent the revenue that the City receives from sewer customers that are the subject of this report. These fees constitute the vast majority and primary source of the sewer fund revenue (95%). The revenue figures provided in Table 2 shows the estimated sewer fund revenue as a result of the proposed sewer rate increases by account type for FY23, FY24 and FY25.
- Other revenue
 - Other Revenue typically includes interest income, permit fees, and miscellaneous charges.

ACCOUNT TYPES	ESTIMATED	PROJECTED	PROJECTED	PROJECTED
	FY22	FY23	FY24	FY25
Single Family	\$ 6,605,654	\$ 6,762,372	\$ 7,069,349	\$ 7,118,324
Multi-Family	\$ 4,011,083	\$ 4,284,049	\$ 4,323,626	\$ 4,331,524
Commercial Low	\$ 1,654,883	\$ 1,724,934	\$ 1,753,776	\$ 1,770,664
Commercial Medium	\$ 138,949	\$ 146,903	\$ 151,826	\$ 152,689
Commercial High	\$ 183,856	\$ 196,779	\$ 202,221	\$ 203,358
TOTALS	\$ 12,594,426	\$ 13,115,037	\$ 13,500,798	\$ 13,576,559

Table 2

Expenses

The expenditure is divided into five categories:

- Metro sewer costs
 - Metro Sewer Costs include payments to the City of San Diego for wastewater treatment services at the Point Loma Wastewater Treatment Plant, debt service payments for Metro system improvements and sewer transportation costs. Metro Sewer Costs also include costs for Pure Water San Diego-the regional plan to convert 83 million gallons a day of wastewater to drinking water by 2035 and avoid costly and unnecessary upgrades to the Point Loma Wastewater Treatment Plant (secondary equivalency). Phase 1 of Pure Water is currently under construction.
- Operation and Maintenance
 - Operation and maintenance include the costs associated with maintaining the City’s sewer collection system, sewer billing, personnel and equipment.
- Capital Improvement Program
 - Capital improvement program includes the costs for upsizing, replacement and/or rehabilitation of sewer system. The City has 155 miles of sewer mains some of which need replacement or upgrade. Staff assesses the condition of sewer facilities during regular maintenance and uses an asset management approach to prioritize the improvement areas and schedules the needed maintenance and capital improvements.
- Insurance and support services
 - Insurance and support services include transfers out of the wastewater fund for liability insurance, sewer claims and other support services.

- Debt Service
 - Expenditures for debt service go toward principal and interest payments for six SRF loans. The budget includes additional debt service projections for the upcoming SRF funded projects. Debt service is expected to slightly increase in 2022, but will see a 12% increase in 2023 when the City begins repayment of a new SRF loan obtained in FY 2021.

There are certain key components that the State looks at during the financial review process in order for the City to receive a low-interest loan through the SRF program. The key components include fund balance; proper public notification of rate changes; adequacy of sewer rates; and a minimum revenue to debt ratio of 110%. The debt service coverage ratio is equal to total revenue minus operating expenses minus transfers for liability and support services divided by annual debt service payments. The City is currently meeting the debt service coverage requirement and is projected to continue meeting this requirement through the proposed rate increase period.

Sewer Rate Cost to Average Single Family Home Customer

Based on the financial projections, staff recommends consideration by the City Council of sewer rate adjustments for the next three fiscal years. The proposed rate increases for the average single family home customer are 3.4% for FY23, 3.5% for FY24 and 4.9% for FY25. For the average single family home that uses 14 units (or 10,472 gallons during the winter months), the rate adjustment would be a \$19.10 increase to the annual bill (\$1.59 per month) in FY23, \$20.62 (\$1.72 per month) in FY24 and \$29.64 (\$2.47 per month) in FY25.

If the proposed rates are approved by City Council, the City will mail property owner letters in June with the amount of their sewer bill for the coming year that will reflect the revised rate structure adjustments. Requests for sewer rate adjustments may be granted per the City's Sewer Service Charge Adjustment Policy. The process to make those requests can be found on the City's website at <https://cityoflamesa.us/sewer>.

CONCLUSION:

It is recommended that the City Council approve the proposed sewer rate increase of 3.4% in fiscal year 2023, 3.5% for fiscal year 2024 and 4.9% for fiscal year 2025 as described in this report (Attachment A), and adopt the ordinance amending Chapter 17.12 of the La Mesa Municipal Code to adjust sewer service charge rates accordingly, which are necessary to maintain the financial health of the wastewater fund.

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Reviewed by:



Greg Humora
City Manager

Respectfully submitted by:



Michael W. Throne, PE
Director of Public Works



Tim Kawasaki
Senior Management Analyst

Attachments: A. Resolution
 B. Protest Letters