



# Agenda Report

April 8, 2024

**TO:** Honorable Mayor and City Council  
**FROM:** Department of Public Works  
**SUBJECT: PUBLIC HEARING TO APPROVE RECOMMENDED SEWER USE FEE RATE STRUCTURE AND RATE ADJUSTMENTS**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed action is not a project as defined in the California Environmental Quality Act (CEQA) Public Resources Code Section 21065, 21080(b)(8) and State CEQA Guidelines Sections 15378(a) and (b)(4), and that even if it were a project, the proposed sewer use fee increases are statutorily exempt pursuant to Section 15273 (Rates, Tolls, Fares, and Charges) under State CEQA Guidelines and as such, is not subject to environmental review;
2. Open a Public Hearing to receive public comment on the recommended adjustments to Sewer Use Fee rate structure and implement the Fiscal Year (FY) 2025 through FY 2029 rate adjustments effective July 1, 2024 or as soon as practicable thereafter;
3. Consider all protests against the proposed Sewer Use Fee rate increase in accordance with Proposition 218;
4. Following the close of the Public Hearing, approve the recommended Sewer Use Fee rate structure and rate adjustments; and
5. Direct the City Attorney to prepare an amendment to the Sewer Use Charge Ordinance (Ordinance) implementing the changes to the Sewer Use Fee rate structure and rates described herein.

## **BACKGROUND:**

On February 5, 2024, the City Council set a public hearing to be held April 8, 2024 to receive comments on the recommended Sewer Use Fee rate structure and rate adjustments and directed the Department of Public Works to mail the notice of the public hearing to customers and parcel owners. The proposed rates were previously presented to

the Municipal Services Committee (MSC) on January 23, 2024, who voted unanimously to forward this item to the City Council to set the public hearing date.

The City owns and operates a sewer wastewater collection system that serves approximately 140,000 residents and commercial users. The sewer system includes approximately 325 miles of sewer pipelines, three pump stations and approximately 7,430 manholes. The operations, ongoing maintenance, and needed capital improvements of the sewer collection system is funded by the City's Sewer Use Fee. This fee is paid by all users of the sewer system and is a part of customers' utility bills.

In March 2023, the Department of Public Works engaged the services of Raftelis Financial Consultants, Inc. (Raftelis) to conduct a comprehensive cost-of-service rate study to evaluate and provide recommendations regarding the City's sewer use fee calculation methodology, rate amount, and develop a five-year financial plan.

The study highlighted several contributing factors as to why the sewer use fee rates need to be adjusted. These factors include: (1) the City has not raised the sewer use fee by more than the consumer price index since 2007 which has not kept pace with increased industry costs, (2) the current methodology used to calculate the sewer use fee is based on consumers' water use and generates insufficient revenue due to long-term drought conditions and customer water conservation efforts; and (3) the cost of maintaining the sewer collection system has increased significantly.

To fully fund the sewer collection program, approximately \$7.6 million is needed annually, and currently the City only collects \$3.9 million on average each year. Revenue generation by the current sewer use fee structure is insufficient to cover current and future operating and capital costs. To help balance the fund and maintain service levels over the last few years, needed capital improvements have been deferred and the Sewer Fund operating reserve balance has been depleted.

#### Sewer Use Fee Increase and New Methodology

The proposed new Sewer Use Fee rate calculation recommends a fixed charge plus a volumetric rate based on water consumption for both residential and commercial customers. This option allows the City to recover fixed cost associated with operating the sewer collection system while still encouraging water conservation efforts. The proposed rate for single family residences is a fixed monthly rate of \$6.16 plus a volumetric rate of \$0.65/hundred cubic feet (hcf) of water used. Single family residence water use is capped at 26 hcf per month which assumes that water usage above 26 hcf is for irrigation, and therefore, does not go into the sewer collection system. The average single family residence monthly fee will go from \$4.55 to \$11.37 which is an increase of \$6.82 monthly or 150%.

The commercial customers will have a fixed rate of \$6.16 plus volumetric rate of \$1.24/hcf. The average commercial customer discharges more wastewater into the system, as such, the volumetric rate reflects commercial customers' share of cost in proportion to flow. Commercial customers' sewer use will be estimated by taking 90% of water use.

The table below shows the proposed monthly rates for the next five years:

	Current	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
<b>Single Family Residence Rate</b>						
Fixed	n/a	\$6.16	\$7.15	\$7.44	\$7.73	\$8.04
Volumetric (\$/hcf)	\$0.35	\$0.65	\$0.75	\$0.78	\$0.82	\$0.85
<b>Commercial Rate</b>						
Fixed	n/a	\$6.16	\$7.15	\$7.44	\$7.73	\$8.04
Volumetric (\$/hcf)	\$0.67	\$1.24	\$1.44	\$1.50	\$1.56	\$1.62

hcf = hundred cubic feet

The following table shows the impact to the average single-family residents' and commercial customers' monthly utility bill.

	Current	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
<b>Average Single Family Residence Bill</b>						
Average Single Family Residence Bill	\$4.55	\$11.37	\$13.19	\$13.71	\$14.26	\$14.83
<b>Average Commercial Bill</b>						
Average Commercial Bill	\$35.51	\$65.40	\$75.86	\$78.90	\$82.05	\$85.34

### Proposition 218 Compliance

In accordance with Proposition 218, notices were mailed on February 21, 2024 to all property owners/customers of record of the public hearing for the recommended adjustments to the Sewer Use Fee rate structure and rate adjustments. The notice included information such as the date and time of the public hearing as well as the following link for more information: [www.cityofpasadena.net/public-works](http://www.cityofpasadena.net/public-works). A copy of the public hearing notice is included in Attachment A.

The City shall consider all protests and will count one written protest per parcel, filed by an owner or tenant of the parcel, in calculating a majority protest. If the City receives written protests from a majority of property owners or ratepayers, the City Council may not implement the Sewer Use Fee rate adjustments. There are a total of 29,197 sewer parcels in the City, which means at least 14,599 protests would need to be received in order to constitute as a majority protest.

### Implementation Timeline

The table below outlines the approximate timeline and implementation schedule for the proposed rate actions.

Date	Action Item
<b>April 8, 2024</b>	Sewer Rate Public Hearing and City Council Vote on Proposed Rate
<b>April 29, 2024</b>	First Reading of the Updated Sewer Use Charge Ordinance

<b>May 6, 2024</b>	Second Reading of the Updated Sewer Use Charge Ordinance
<b>July 1, 2024, or as soon as practicable thereafter</b>	Effective Date of New Sewer Use Fee Rates

### Customer Outreach and Education

In addition to the notice of public hearing that was mailed to all sewer use customers, Public Works provided various outreach options to provide information and education to the community about the recommended Sewer Use Fee rate adjustments. The public hearing notice was translated to Spanish and Mandarin and posted on the Public Works website and shared on the City's social media channels, such as Facebook and Twitter. Public Works staff also hosted two in-person public meetings on March 19<sup>th</sup> at Robinson Park Recreation Center and on March 20<sup>th</sup> at Victory Park Recreation Center, provided information in the City Manager's Newsletter, provided information with the district liaisons, and issued a press release on March 6<sup>th</sup>.

### **COUNCIL POLICY CONSIDERATION:**

The recommendation is consistent with the City Council's goals to maintain fiscal responsibility and stability; and improve, maintain, and enhance public facilities and infrastructure.

### **ENVIRONMENTAL ANALYSIS:**

The implementation of a sewer use fee increase is an administrative action that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Sections 15378(a) and (b)(4) of the CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

Furthermore, the recommended sewer use fee increases are determined to be statutorily exempt from CEQA under Public Resources Code Section 21080(b)(4) and Section 15273 (Rates, Tolls, Fares, and Charges) of the State CEQA Guidelines. Under Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval rates, tolls, fares, or other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment, or materials,
3. Meeting financial reserve needs and requirements,
4. Obtaining funds for capital projects, necessary to maintain service within existing services areas, or
5. Obtaining funds necessary to maintain such intra-agency transfers are authorized by city charter.

The rate increase falls within these parameters and therefore is exempt from CEQA.

**FISCAL IMPACT:**

To fully fund the sewer collection program, approximately \$7.6 million is needed annually for operating and capital cost. Currently, the city collects \$3.9 million on average each year. The recommended Sewer Use Fee increase, if approved, will become effective on July 1, 2024, and is expected to generate an additional \$4.2 million in revenue needed to address the cost of service in FY 2025 and to start to build the reserves.

Respectfully submitted,



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Director of Public Works

Prepared by:



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Approved by:



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MIGUEL MARQUEZ  
City Manager

Attachment A – Public Hearing Notice