

# Agenda Report

February 5, 2024

**TO:** Honorable Mayor and City Council  
**THROUGH:** Municipal Services Committee (January 23, 2024)  
**FROM:** Department of Public Works  
**SUBJECT: SET PUBLIC HEARING FOR APRIL 8, 2024 FOR PROPOSED 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 and Section 15378(b)(4), and that 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. Set a public hearing for April 8, 2024, regarding proposed Sewer Use Fee rate structure and rate adjustments; and
3. Direct the Public Works Department to mail notices of public hearing set for April 8, 2024, regarding proposed Sewer Use Fee rate structure and rate adjustments.

## **MUNICIPAL SERVICES COMMITTEE RECOMMENDATION**

On January 23, 2024, the Municipal Services Committee (MSC) voted unanimously to forward this item to the City Council to set the public hearing date. A committee member suggested that the proposed rate should be phased-in over the next five-years to allow customers to adjust to the overall proposed increase over time.

## **BACKGROUND:**

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 user of the sewer system and is a part of customers' utility bills.

The current sewer use fee is based on the consumers' water use which is considered to be proportional to the sewer system's wastewater discharge. This methodology has been used since the establishment of the fee. However, with the long-term statewide drought conditions and water conservation efforts, the amount of sewer use fees collected over the last ten years, has not kept up with the cost of maintaining Pasadena's aging infrastructure.

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 and rate amount. Founded in 1993, Raftelis has conducted over a thousand rate studies in the state of California including utility and wastewater studies.

In developing a financial plan for the sewer collection system, Raftelis based the findings and recommendations on the following assumptions:

1. Sewer collection program adequately establishes an operating reserve of 10 percent of yearly operating expenses, and a capital reserve of 50 percent of yearly capital expenses; and
2. Sewer's capital improvement program is funded at \$3.5 million per year (before inflation). This would ensure that the sewer system deficiencies are addressed each year.

The study highlighted several contributing factors as to why the sewer use fee rates need to be adjusted. The City has not raised the sewer use fee by more than the consumer price index since 2007, however, the utility cost index has outpaced general inflation increases since 2020 by almost double and continues to rise. 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. The revenue generated by the sewer use fee is insufficient to cover the 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 study reviewed three rate calculation methodologies: a volumetric rate based on water consumption which is what the City currently uses; a monthly fixed charge for Single Family Residential (known as a flat charge); and a fixed charge plus volumetric rate. Staff 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 it encourages water conservation efforts. The fixed charge includes 52 percent of collection related costs that

are fixed and do not vary with flow. The proposed rate for single family residence is a fixed monthly rate of \$6.16 plus a volumetric rate of \$0.65/hundred cubic feet (hcf). 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 customer's share of cost in proportion to flow. Commercial customer's sewer use will be estimated by taking 90% of water use.

The table below shows the proposed month 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

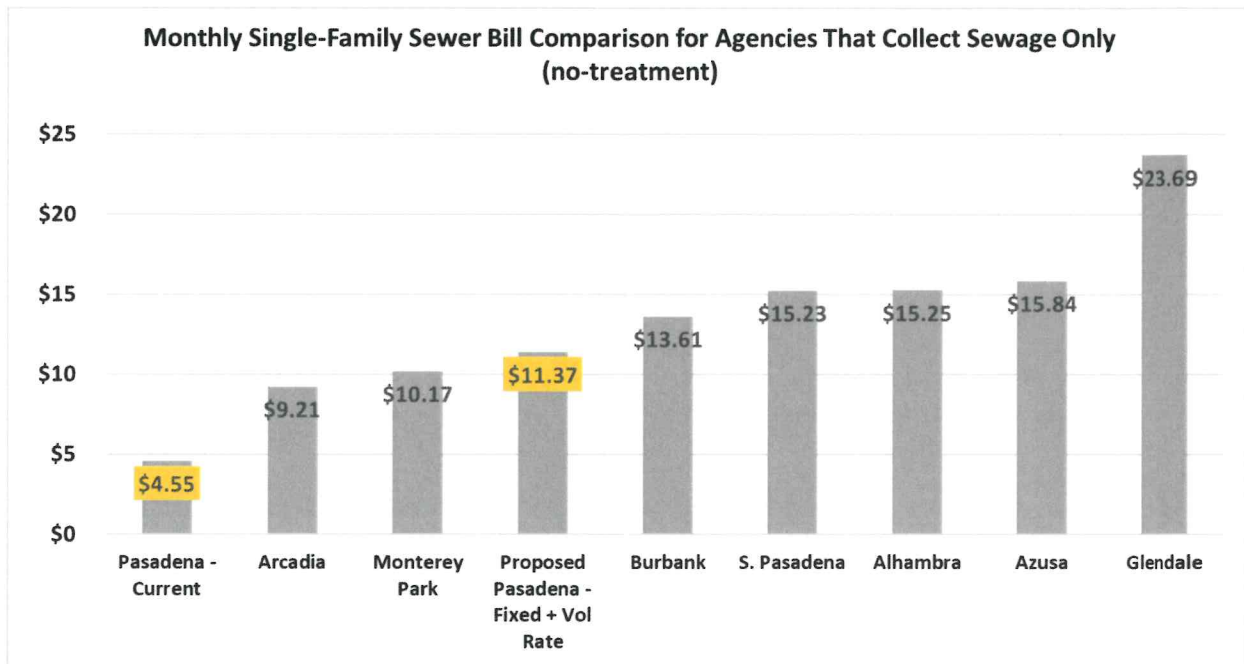
The following table shows the impact to the average single family residents' and commercial customers' monthly utility bill.

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

Comparative Cities

To see how Pasadena's current and proposed rates align with other jurisdictions, the consultant conducted a comparison of other surrounding cities' sewer collection fees to determine their fee amount. Nine cities were surveyed but some of the cities combined sewer treatment and sewer collection fees together, and therefore, were not directly comparable. Los Angeles County provides sewer treatment for Pasadena and customers pay for this service through their property tax bill.

The graph below shows that Pasadena's current monthly fee is the lowest of the comparison cities, and the proposed increase is in-line with what surrounding cities are charging.



Implementation Timeline

The Public Works Department recommends a Public Hearing be set for April 8, 2024, to receive comments on the recommended rate structure and adjustments to the sewer use fee. Following the City Council’s action to set a date for the public hearing, a notice will be mailed to all affected property owners and residential sewer system customers that includes the recommended rate increases and provides information regarding the public hearing in compliance with the requirements of Proposition 218. The Public Hearing Notice is shown in Attachment A.

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

Date	Action Item
<b>February 2024</b>	Mail 45-day Public Hearing Notice
<b>February – March 2024</b>	Customer Outreach and Education
<b>April 8, 2024</b>	Sewer Rate Public Hearing and City Council Vote on Proposed Rate
<b>April 15 &amp; 29, 2024</b>	City Council’s 1 <sup>st</sup> and 2 <sup>nd</sup> Reading of Ordinance Amendments
<b>July 1, 2024</b>	Effective Date of New Sewer Use Fee Rates

The Pasadena Municipal Code 4.52.020 – *Sanitation sewer use rates* needs to be updated to include new rate structure methodology as outlined in this report.

**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 establishment of a date to conduct a public hearing for the consideration of 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 Section 15378(b)(4) of the CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

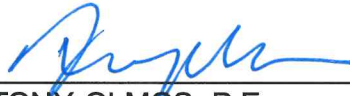
Furthermore, the recommended sewer use fee increases are determined to be statutorily exempt from CEQA per Section 15273 (Rates, Tolls, Fares, and Charges). Under Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval rates, tolls, fares, or other 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.

**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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Prepared by:



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MIGUEL MARQUEZ  
City Manager

Attachment A – Notice of Public Hearing on Sewer Use Fee Rate Structure and Rate Adjustments