



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Proposed FY 2014/15 Rates for Water, Wastewater, and Solid Waste Utilities for Services Provided to Customers Within and Outside City Boundaries

#### **REPORT IN BRIEF**

As part of the annual process of reviewing the financial condition of the three utility enterprises, staff recommends that the City Council adopt changes in utility rates. This report presents an analysis of the current utility policy framework, revenues, expenditures, revenue requirements and utility rates for the City's water, wastewater, and solid waste utilities.

Individual rates and monthly bills may vary. However, as a whole the recommended increases are as follows: 5% increase in water rates, 9% increase in wastewater rates, and 6% increase in solid waste and recycling rates. These increases will result in the average single-family residential monthly bill going up by:

Water	\$2.33
Wastewater	\$3.04
<u>Solid Waste and Recycling</u>	<u>\$2.41</u>
Total	\$7.78

The new total average monthly bill will be \$128.88, an increase of approximately 6.4% over the current year. The City's commercial rates will increase by the same overall percentage as residential rates. Detailed single-family rate comparisons are included as Attachment 1 and commercial rate comparisons are provided as Attachment 2. In comparing rates from various cities, it should be remembered that each city funds and provides a different set of services, and Sunnyvale provides among the most comprehensive suite of services.

The proposed rate increases are included in the recommended FY 2014/15 Budget that is currently being reviewed by the City Council. Each year, staff provides Council with proposed rates and planned changes in rates over twenty years. The proposed increase in water rates is as previously planned and is necessary to cover rising wholesale water costs and significant rehabilitation costs for water infrastructure. The proposed increase in wastewater rates is higher than previously planned, and is necessary to cover needed infrastructure and capital costs of the City's aging wastewater treatment plant and collection system. Increases in solid waste rates are higher than last year's projected change and are resulting primarily from increases in the cost for providing solid waste collection and disposal as well as to begin implementation of the City's Zero Waste Strategic Plan.

#### **BACKGROUND**

Sunnyvale utility rates are based entirely on the City's costs for operating and maintaining its water,

wastewater, and solid waste facilities and services. Each of the utilities is operated as an independent enterprise, and all expenses and revenues for each service are accounted for separately from other funds. In fact, state law requires that all fees collected by each utility be used within that utility and are not allowed to be used for unrelated services.

Each year, as part of the budget process, staff analyzes the current condition of, and long term outlook for, all of the City's utility funds. These analyses are reflected in the Long-Term Financial Plans for each fund. They include a review of available fund balances, state and federal environmental requirements, revenues, anticipated capital, infrastructure and operational requirements, and a detailed inspection of significant expenditure areas (e.g. the anticipated cost of purchased water, environmental regulations related to wastewater discharge, the cost of the City's solid waste collection contract with Bay Counties Waste Services, etc.). The results of these analyses lead to proposed adjustments to rates that will generate the revenues necessary to meet planned expenditures. It is important to note that the practice of long term planning and the use of a Rate Stabilization Reserve enable the City to maintain utility rates at stable levels while providing high quality, reliable, and efficient services by spreading the effects of anticipated operational, capital, and infrastructure costs over multiple years.

### **Public Noticing Requirements**

Sunnyvale continues to comply with the noticing provision for utility rates as required by Proposition 218 and AB 1260. The notice of proposed utility rates was mailed on April 23, 2014.

Proposition 218 requires that should the Council receive written protests from a majority of customers, the proposed rates will not become effective and the current rates will remain in place.

Staff will tabulate protests received prior to the meeting, adding any valid written protests received at the meeting, and summarize the total number for Council. A majority of protests exists if approximately 15,700 valid written protests are received from the properties subject to the proposed fee. One vote will be counted for any property owner or utility customer who submits a protest prior to the end of the noticed public hearing (one protest per parcel). No protest received after that time, even if postmarked prior to that time, will be accepted. Each protest must be in writing and identify the affected property (by assessor's parcel number, street address or utility account number). Oral comments at the public hearing will not qualify as a formal protest. Protests received from residents who are not either property owners or utility account holders with the City shall not be counted.

As of the preparation of this report, staff has received 71 protests. These fall primarily into three categories. The majority (46) are protests that simply protest the rate increases. 14 protests state that either the rates are too high already or raising rates under the current economic conditions is unreasonable, and that the City should lower costs instead. The third category of protests, of which staff has received 11, base their objection on the protestor's low or fixed income.

### **EXISTING POLICY**

Sunnyvale Municipal Code sections 12.16.020 (Wastewater), 12.24.010 (Water), and 8.16.120 (Solid Waste) authorize the City Council to establish by resolution fees and charges based on cost influencing factors.

Council Policy 7.1.1 *Fiscal -Long Range Goals and Financial Policies*, Policy I.1a.5: The user fees established for each utility will be reviewed annually and set at a level that will support the total costs

of the utility, including direct and indirect costs and contributions to reserves set by Council policy.

## **ENVIRONMENTAL REVIEW**

N/A

## **DISCUSSION**

### **Water Rates**

Water rates pay for the safe and reliable delivery of water to the majority of Sunnyvale residents and businesses. The Water Supply and Distribution Fund (Attachment 3) accounts for all revenues and expenses related to the City-operated water utility. Expenses include costs for wholesale water, capital and infrastructure project-related costs, debt service, and other operating costs. Revenues consist of service fees for water and recycled water, water-related public works and construction fees, and interest income. After expenditure levels are developed, water rates are set to collect enough revenue to maintain the Fund in a sustainable financial position.

The largest expense of the Water Fund is the cost of purchasing water. Sunnyvale currently receives water from four different sources: the San Francisco Public Utilities Commission (SFPUC), the Santa Clara Valley Water District (SCVWD), City-owned wells, and recycled water. The majority of supply is provided by the SFPUC and SCVWD, and the amount supplied is set by contracts. Only about one-half of a percent of the water supply will come from well water, which is adequate to keep the wells fresh and operating. Any remaining amount above the contractual minimums will come from recycled water. The total cost of water makes up 58% of the FY 2014/15 budget and is projected to stabilize at approximately 68% of budget within the first ten years of the Long-Term Financial Plan.

Overall the City's water demand grew 11% in FY 2012/13 after several years of decline. Due to improvements in the plumbing code and water use efficiency, only moderate growth is expected each year over the next twenty years. Additionally, as the region is currently experiencing a drought, a reduction in demand is projected for FY 2013/14 and FY 2014/15. FY 2013/14 is projected to see a reduction of 4% from FY 2012/13, and FY 2014/15 is projected at a reduction of 10% from the prior fiscal year. This anticipated reduction affects both the revenue and expenses of the Fund. To the extent that the City's suppliers reduce their contractual minimums to accommodate decreased demand, the City is projecting savings from water purchases. However, buying less also translates to selling less, and therefore the financial plan anticipates a revenue reduction as well. These are reflected as separate line items in the financial plan titled "drought reduction."

It is important to note that if there are further calls for water use reductions, the Fund could be negatively impacted. A large portion of the costs to provide water service are fixed costs associated with the operation of the water utility, and these must be paid regardless of the amount of water produced. As a result, when water consumption falls, there is a risk that rates will need to increase to cover the fixed costs of the operation. Similarly, it is possible that SCVWD or SFPUC would decide to place a surcharge on the cost to purchase water during the drought. Should that occur, staff proposes that a pass-through surcharge provision be included in the FY 2014/15 fee schedule. This surcharge would enable the additional cost of purchased water to be recovered prior to FY 2015/16. This proposed surcharge was presented to customers in the rate notice sent out at the end of April.

The City is currently paying the SFPUC approximately \$1,067 per acre foot of water, including meter charges, and paying SCVWD \$780 per acre foot, including a treated water charge. The City is also

paying approximately \$1.5 million in FY 2013/14 to the SFPUC for the Bay Area Water Supply and Conservation Agency (BAWSCA) Surcharge which makes up Sunnyvale's share of the debt service on bonds issued by BAWSCA in FY 2012/13. BAWSCA issued the bonds on behalf of its 26 member agencies in its effort to restructure capital debt owed to the SFPUC for facilities constructed by the SFPUC that benefit the regional customers. These payments will continue through 2034.

Both the SFPUC and the SCVWD provided wholesale rate projections for the next ten years. These projections are in the base rate for the long term rate projections in the twenty-year financial plan and are reflected in the table below. The projected increases in the table do not reflect changes in the BAWSCA Surcharge or any other costs related to purchasing water.

Additionally, the SFPUC is projecting a rate decrease in FY 2020/21. It is the City's practice not to recognize decreases, as they are unlikely to actually occur, and instead hold the rate flat for that year. The estimated decrease is significant enough that the rate is projected flat for two years.

Projected Increases in Base Wholesale Rates		
Fiscal Year	SFPUC	SCVWD
2014/15	20.2%	9.9%
2015/16	11.0%	9.8%
2016/17	0.3%	9.9%
2017/18	5.5%	9.9%
2018/19	12.4%	9.8%
2019/20	5.2%	9.8%
2020/21	0.0%	8.4%
2021/22	0.0%	5.8%
2022/23	1.6%	5.6%
2023/24	3.0%	5.5%

On May 15, 2014, the SFPUC adopted a lower rate increase for FY 2014/15 than originally projected. This will result in a one-time savings of approximately \$600,000. Staff recommends that these funds be reserved for either future appropriation to infrastructure projects, to offset future rate increases, or to mitigate revenue volatility that may result from the drought.

The projected well water total unit cost for FY 2014/15 is \$858 per acre foot, an increase of 8.7% over the current year unit cost of \$789. This cost includes a charge from SCVWD for pumping ground water from City wells (pump tax), as well as the power costs associated with running the pumps.

The City attempts to purchase water at the lowest possible cost. The City's water system allows the movement of water from one portion of the City to another, and this allows staff to monitor and adjust water purchases to utilize the most cost effective source, while still meeting our minimum contractual requirements for purchases. Despite these efforts and the drought-related supply reductions, the rate increases by the City's water suppliers result in the City's total purchased water costs for FY 2014/15 increasing by 5.5% in comparison to FY 2013/14.

Lastly, the City's Water Pollution Control Plant (WPCP) provides recycled water, which is wastewater that has been treated to very high standards. Recycled water is currently sold at 90% of water rates to encourage its use. Staff and SCVWD have ongoing discussions to partner in significant capital improvement projects that may bring recycled water to more areas of the City.

#### Operations and Capital Expenses

The FY 2014/15 budget for the Water Fund includes approximately \$5.8 million for personnel and other costs related to operating and maintaining the water supply and distribution system. The Water Fund contains annual debt service of approximately \$2.0 million in FY 2014/15. This consists of two components, the majority of which is \$1.9 million for debt service on the City's 2010 Water Revenue Bonds. The remainder of the debt service is the Water Fund's portion of the Certificates of Participation issued in 2001 for purchase of the 505 West Olive Avenue Government Center property. This latter debt service ends in FY 2029/30. The Fund also has a small interfund loan repayment that terminates in FY 2014/15 for the purchase of the property adjacent to the Corporation Yard.

Like many municipalities in the state and the country, Sunnyvale's water storage and distribution systems are over fifty years old and in need of significant rehabilitation. The Environmental Services Department prioritizes projects to address this aging water utility infrastructure, as well as spend bond proceeds in a timely manner. Over the past few fiscal years, the highest priority was placed on water pipe replacements. By mid FY 2014/15, the City will complete almost \$10 million in accelerated replacements. The City will begin in FY 2014/15 to replace all the mechanical and electrical components of the Wolfe-Evelyn Water Plant. The mechanical and electrical systems associated with this Plant were built in 1959 and are beyond their 40 year life expectancy. Staff will also continue addressing the most pressing needs of the City's water storage tanks and water wells, as well as evaluating how to operate these facilities within the context of the overall distribution system.

Additionally, a renewed emphasis has been placed on the City's recycled water production and distribution system. Funding for this effort crosses both the water utility and the wastewater utility. \$2.1 million has been budgeted for Sunnyvale's share of a regional project that includes upgrades to the San Lucar Pump Station and extension of the recycled water system along Wolfe Road to Homestead Road. Sunnyvale is working with SCVWD to partner in funding this significant expansion of the recycled water system. If such an agreement is approved by Council, staff will return with suggested revisions to the projects budget that reflects the changes. Since our contribution is currently limited to \$2.1 million, no significant impacts on water rates are anticipated as a result of any revisions to the projects.

By City policy, the Water Fund maintains a Contingency Reserve of 25% of operations and a Rate Stabilization Reserve to normalize rates and provide for the effect of economic cycles. This Fund also contains reserves for revenue and debt funded projects to manage the naturally uneven flow of these funds against project expenditures.

#### Recommended FY 2014/15 Water Rate Increase

The proposed Water Supply and Distribution Fund Long-Term Financial Plan (Attachment 3) reflects the recommendation that water charges increase by 5%. The projected rate increases anticipated over the remainder of the twenty-year plan are shown at the bottom of the Water Supply and Distribution Fund Long-Term Financial Plan.

The detailed Water Rate Survey is presented as Attachment 4. Attachment 1 shows monthly

residential utility bill comparisons. The City's residential water rate remains competitive when compared with neighboring cities.

### **Wastewater Rates**

The Wastewater Management Fund (Wastewater Fund) accounts for revenues and expenses related to the provision of the safe and reliable removal of wastewater from all residences and businesses in Sunnyvale. Wastewater rates also pay for half of the City's street sweeping services, plus storm water management, non-point source pollution prevention and other critical public services.

The City owns and operates an extensive system for management of wastewater within City limits and in a small area in the northern portions of Cupertino and San Jose. The system includes approximately 283 miles of sewer pipes, a storm drainage system consisting of 330 miles of storm drainage pipes, and a 29.5 million gallon per day (MGD design capacity) Grade V Water Pollution Control Plant (WPCP). Operations include the transport of sewage to the treatment plant, wastewater treatment, recycled water production, industrial discharge inspection and enforcement, storm water management, and many other services related to wastewater.

### **Operations and Capital Expenses**

The proposed FY 2014/15 operations expenses in the Wastewater Fund reflect personnel, chemicals, and other costs. Additionally, the City's street sweeping program is funded equally by the Wastewater and Solid Waste Funds to reflect the benefits that street sweeping provides in clearing litter and debris off the streets and preventing that debris from entering the storm drainage system.

The Wastewater Utility is facing even larger infrastructure challenges than the Water Utility and the FY 2014/15 Recommended Budget includes planned infrastructure expenditures of approximately \$437 million over twenty years. The most significant undertaking is the renovation of the City's WPCP, which constitutes 76% of the planned infrastructure costs (\$331 million).

The most significant of the WPCP renovation projects to date is approximately \$51 million to design and construct new primary treatment facilities. This includes a new head works facility, which removes large debris from incoming sewage and pumps the sewage into new primary treatment tanks which, in turn, slow down the wastewater to settle out large solids. The current influent sewage pump station has reached the end of its useful life and the gas-powered influent engines will be non-compliant with air regulations effective January 2016. The City anticipates building the new head works and primary facilities at the current bio-solids drying operation location, adjacent to the current influent pump station. As a result, this project displaces the current bio-solids drying operations and will likely require alternate operation (such as vendor contracted drying operations) until new bio-solids facilities are constructed.

Additional WPCP renovation projects include \$29 million for Program Management Services and \$7 million for the WPCP Master Plan. These projects will fund the identification of future secondary and tertiary treatment processes, the development of conceptual designs for future projects within the reconstruction program, the preparation of the programmatic environmental impact report, and oversight of the implementation of the reconstruction program over the next 12 years. The remaining \$238 million will be appropriated to specific, related projects as they are identified.

Critical projects previously identified as necessary in the short-term to address the most advanced areas of WPCP deterioration, or where there is an increasing danger for failure, remain in progress.

These infrastructure needs fall primarily in two categories:

1) technology has not changed significantly since they were originally built and will therefore become part of the new plant, and 2) may be replaced again with different technology or processes as part of the larger WPCP replacement project, but will not last in the interim period. Examples include a project to replace the gaseous chlorine disinfection system with a much safer liquid hypochlorite system and the rehabilitation of the WPCP's digester facilities.

In addition to the work on the WPCP, replacement of sewer, storm pipe and facilities are a high priority. The wastewater collection system consists of approximately 613 miles of sewer and storm mains, and seven pump or lift stations. The system has five major sewer trunk lines that terminate at the WPCP, where sewage is treated.

The City's wastewater collection systems are in need of significant rehabilitation due to their age. The FY 2014/15 Recommended Budget includes approximately \$29 million in the first ten years in projects related to sewer and storm water collection and an additional \$14 million of fully identified projects in the second ten years of the plan. Major projects over the first ten years include \$11 million for sewer and storm pipe improvements, \$7 million for rehabilitation of the Lawrence Expressway trunk line, \$6 million for sewer and storm pump and lift station rebuilds, and \$5 million for storm system trash capture devices installed throughout the storm water collection system to meet new permit requirements. This project, new in FY 2013/14, funds the installation of two devices every other year for ten years.

The Wastewater Fund has two inter-fund loans advanced from the General Fund. The first loan was to finance the remodel of the primary facilities of the WPCP, expanding the capacity from 22.5 million gallons per day to 29.5 million gallons per day. The loan was made by the General Fund in FY 1980/81 for a total of \$10.7 million at 7% interest. The original term was for 20 years; however payments were periodically deferred or delayed to help balance cash needs in the Wastewater Fund. Regular payments have been made as scheduled since FY 2004/05. The second loan was made to assist the Wastewater Fund with cash flow issues by providing needed cash to stabilize rates. The loan was advanced in FY 1995/96 for a total of \$2.4 million at 7% interest. The term was for 20 years with ongoing payments also periodically deferred until FY 2004/05. No changes have been made to the loan payoff schedule as part of the FY 2014/15 Recommended Budget.

Approximately \$3 million in annual debt service payments are largely for the Wastewater Revenue Bonds, issued in 2010 for \$35 million, to refund the existing bonds and provide \$22.5 million in new funds for capital and infrastructure projects. Some bond proceeds are funding the initial efforts for the renovation of the WPCP. Future debt is reflected in the *New WPCP Debt Service* line item; the actual amount and structure of the financing will be determined as the plan is further defined. However, it is important to note that over time, the City will be issuing bonds to fund the WPCP renovation. At its completion, the City will be paying significant annual debt service, anticipated to be approximately \$23 million each year, almost 30% of the Fund's total expenses. This level of debt service will require multiple years of high single digit rate increases to fund. Debt service is also included for the Wastewater Fund's portion of the Certificates of Participation issued in 2001 for purchase of the 505 West Olive Avenue Government Center property.

In order to help the Solid Waste Management Fund with cash flow issues, the Wastewater Fund loaned the Solid Waste Fund \$2 million in FY 2011/12 at 4.5% interest. Payment is deferred to FY 2015/16 and then repaid over a seven-year period. This helps the Solid Waste Fund with cash it

needed and helps the Wastewater Fund in the future as its cash needs increase to fund the new WPCP.

#### Wastewater Rates for Customers Outside the City

In addition to the City's wastewater customers within the city limits, there are 1,876 properties located outside the city limits that are serviced by the City's wastewater collection and treatment system. In accordance with legal requirements for the collection of fees on the property tax roll, the public hearing scheduled for June 10, 2014, also includes the proposed charges for wastewater services provided by the City of Sunnyvale to properties located outside the City limits. Details of the charges for each property outside the City are included as Attachment 10. A map of the service area outside the City is provided as Attachment 11.

In the mid 1950s, an area known as Rancho Rinconada was being developed as a mostly single-family residential area. At the time, this area was in a pocket of the county that had no direct access to a sewer collection system. The City of Sunnyvale entered into a series of agreements with the developers that allowed the Rancho Rinconada sewer system to be tied into a 15-inch City sewer main that was extended 1.7 miles for that purpose. The agreements required developers to construct sewers that met the City's standards and allowed the City to collect fees from the homeowners for the purpose of reimbursing the City for its costs of providing on-going sewer service.

Proposed charges for all customers in the outside sewer area are equal to the City's proposed charges for customer inside City limits plus a 1% administrative fee charged by the County for processing.

#### Wastewater Cost of Service

Periodically, the City conducts a cost of service rate review on each of its utility enterprises. In FY 2011/12, staff worked with a consultant to complete a wastewater cost of service study. The purpose of the study was to review the City's wastewater rates based on an analysis of customer usage data and propose adjustments to rates to ensure that they equitably recover the City's costs for providing service. The study determined that rates for commercial high strength customers were not sufficient to recover the cost of providing service to this customer group. To better align high strength rates with the cost of service provided, staff proposed that rates be increased an additional 12.5% over two years starting in FY 2013/14. The proposed rates for FY 2014/15 include the second half of this rate increase.

By City policy, the Wastewater Fund maintains a Contingency Reserve of 25% of operations and a Rate Stabilization Reserve to normalize rates and provide for the effect of economic cycles. This Fund also contains reserves for revenue and debt funded projects to manage the naturally uneven flow of these funds against project expenditures.

#### Recommended FY 2014/15 Wastewater Rate Increase

The rate increase proposed for Wastewater services for FY 2014/15 is 9%, which is slightly higher than projected in last year's budget. Annual rate increases for the remainder of the planning period are shown at the bottom of the Wastewater Management Fund Long-Term Financial Plan (Attachment 5).

The City's detailed Wastewater Rate Survey is presented as Attachment 6. As shown in Attachment 1, Monthly Utility Bill Comparisons - Single Family Residential, the City's residential wastewater rate



is competitive when compared with neighboring cities.

### **Solid Waste Rates**

The Solid Waste Management Fund (Solid Waste Fund) accounts for the revenues and expenses related to collection, recycling, and disposal of solid waste generated within the City of Sunnyvale. A private company, Bay Counties Waste Services, doing business in Sunnyvale as Specialty Solid Waste & Recycling (Specialty), has an exclusive franchise for collection of solid waste and recyclable materials through 2021, and these contract costs are reflected here. Operation of the Sunnyvale Materials Recovery and Transfer (SMaRT®) Station and disposal of refuse at the Kirby Canyon Landfill are captured in their own fund, but the City's share of these activities is reflected in the Solid Waste Fund.

Solid waste rates are set to recover the City's cost of providing service to our customers. To verify that the cost of service provided is accurately reflected for each customer group in the City's utility rates, staff periodically conducts rate studies for each of the City's enterprise funds. A solid waste cost of service study was completed this year. Staff is reviewing the results of the cost of service study, and plans to implement most of the changes based on this study for FY 2015/16. The recommended changes include shifting rates across customer classes to better account for the fixed costs of solid waste collection. As a result, smaller cart and bin sizes are likely to see a higher percentage increase than larger cart and bin sizes.

The FY 2014/15 proposed fee schedule does include changes to on-call debris bin collection and debris bin rental rates based on the cost of service study. The study found that the rates for these services were set higher than the actual cost to the City of providing these services. This can be attributed to the reduced amount of development activity experienced over the previous few years due to the recession. As fewer bins were requested by customers, the City's revenue was impacted, necessitating higher rates for debris bins. Recently, there has been a significant increase in commercial development, generating an increased demand and revenue related to debris bins. As a result, on-call debris bin and debris bin rental rates are reduced in the proposed FY 2014/15 Fee Schedule to reflect the City's actual cost of service.

The City's franchise with Specialty is the largest single expense within the Solid Waste Fund and makes up 45% of the total expenses in the FY 2014/15 Recommended Budget for the solid waste system. Payments are made on a monthly basis, but the total is determined for a year based largely on formulas that take actual expenses in the last completed fiscal year and adjust them for inflation and apply a profit. Therefore, the contractor payment for the following fiscal year is driven primarily by actual expenditures from the last full fiscal year, adjusted by various indexes as identified in the contract. The projected FY 2014/15 contractor payment is estimated at \$20 million, an increase of about \$530,000 or only 2.7% over the current FY 2013/14 contractor payment. However, over the last four years the contractor payment has risen 15%, placing a significant strain on the Fund. The bulk of that increase was due to an accounting error made by Specialty regarding an incentive payment for extending the useful lives of equipment and inventory. This error resulted in an additional \$1 million dollars in payments in FY 2012/13 than originally planned, and increased the base payment. This required drawing down the Fund's reserves over the near term, driving proposed solid waste rates in the short term higher than planned.

City operations costs in the Solid Waste Fund account for approximately 6% of total fund expenses. City operations include contract administration costs for the City's solid waste collection, transfer and

disposal contracts, recycling program outreach and administration costs, and administrative and regulatory compliance costs associated with maintaining the closed Sunnyvale landfill. As with the wastewater utility, continued tightening of regulations related to air quality and post closure landfill maintenance are placing upward pressure on the solid waste utility's costs. The Fund also reflects a new project for implementing the City's Zero Waste policy. The project, which totals \$500,000 over two years, is only sufficient to begin implementation. It is anticipated that to fully implement Zero Waste, rates will need to increase significantly above current projections.

The Solid Waste Fund has two inter-fund loans from the General Fund. The first loan provided a total of \$3.68 million during 1985, 1988 and 1989 for construction of a system to convert methane gas to a marketable form of energy. The second loan, for \$10.5 million, was to stabilize solid waste rates between FY 1994/95 and FY 1998/99. Both loans bear interest of 7%. No changes have been made to the loan payoff schedule as part of the FY 2014/15 Recommended Budget. Additionally, in order to help with cash flow purposes, the Solid Waste Fund reflects a \$2 million loan made in FY 2011/12 from the Wastewater Fund at 4.5% interest. Payment is deferred to FY 2015/16 and then repaid over a seven-year period. This helps the Solid Waste Fund with short term cash flow, and the Wastewater Fund with cash it needs in the future to fund the new WPCP.

Debt service expenditures reflect Sunnyvale's portion of the debt service for the original cost of the SMaRT Station facility and replacement equipment, as well as the estimated portion of debt which will be issued in FY 2021/22 for a new materials recovery system. Debt service also includes the Solid Waste Fund's portion of the Certificates of Participation issued in 2001 for purchase of the 505 West Olive Avenue Government Center property.

By fiscal policy, the Solid Waste Fund maintains a Contingency Reserve of 10% of operations. This is less than the 25% required for the Water and Wastewater Funds to reflect the fact that this operation has less City-owned infrastructure at risk for damage or disaster. The Fund also maintains a Rate Stabilization Reserve similar to the other utilities.

### **Sunnyvale Materials Recovery and Transfer (SMaRT) Station Fund**

The Sunnyvale Materials Recovery and Transfer (SMaRT) Station began operations in October 1993. The costs of building, maintaining, and operating the SMaRT Station are shared by the cities of Sunnyvale, Mountain View and Palo Alto as specified by a Memorandum of Understanding (MOU) among the cities. Operating costs and revenues from the sale of recyclables are charged to or distributed to the cities based on the total tons of solid waste each community brings to the SMaRT Station for materials recovery, transfer, and disposal.

Sunnyvale's share of SMaRT station costs is included in the solid waste fund. At current garbage delivery rates, Sunnyvale is responsible for about half of the SMaRT Station operating expenditures and receives about half of the revenues earned by the cities from recyclables removed from the garbage. The capital cost of the SMaRT Station was financed by the sale of revenue bonds by Sunnyvale. The debt service on the bonds is shared among the three cities as specified in the MOU. The SMaRT Station MOU expires in FY 2021/22.

The SMaRT Station Operations Fund was established to account for operations at the facility. It receives revenue from charges to the cities of Sunnyvale (Solid Waste Fund), Mountain View, and Palo Alto, and from the sale of recyclables. Major operating cost components include the SMaRT Station operator contract and disposal fees and taxes collected by the Kirby Canyon Landfill. The

Fund is managed so that annual revenues and expenditures are in balance and that no fund balance, with the exception of a small debt service reserve, is carried forward to the next year.

The SMaRT Station is operated by a private company under contract with the City. The City Council awarded the current agreement on February 13, 2007 to Bay Counties Waste Services, who began operations on January 1, 2008. To date, the City has issued seven-year operator agreements, and is currently completing a Request for Proposals (RFP) for a new contract. The FY 2014/15 Recommended Budget includes additional funding in anticipation that the cost for this contract will increase.

The three cities that participate in the SMaRT Station have individual agreements with Kirby Canyon for landfill services that require payment for disposal of a minimum quantity of solid waste each year. This provision is commonly referred to as a “put or pay” requirement. In October 2012, the cities had the ability under the contract to modify the level of put or pay required, and Sunnyvale’s exercised its right, lowering its solid waste minimum quantity by the maximum allowable 10%. In December 2013, the City executed a Second Amendment to the Specialty franchise (RTC 13-300). In exchange for lengthening the franchise by ten years, the three cities will save between \$4 and \$7 million through reduced landfill costs between 2014 and 2021.

The SMaRT Station Replacement Fund provides for the replacement of City-owned SMaRT Station equipment. The three participating cities contribute to these efforts and to payment of debt service based on fixed percentages established by the SMaRT Station MOU. Debt service reflects payment through FY 2017/18 for debt issued for the original cost of the facility, and through FY 2021/22 for replacement of materials recovery facility equipment.

Staff projects that while most of the facility’s equipment and the overall SMaRT Station can be maintained in good working order through the term of the MOU, there will come a point when the facility and equipment will need replacement or rehabilitation. In order to allow for the cost impact of this eventuality, funding is projected for a new materials recovery system and any other improvements needed to the SMaRT Station Facility in FY 2021/22, with annual debt service of \$2 million. Funding is also provided for planning and inter-jurisdictional coordination in FY 2016/2017 through FY 2019/20. Funds for design and construction are scheduled for FY 2020/21 through FY 2022/23, either to replace the SMaRT Station or to implement some other solution for the management of solid waste and recyclables in the City. The recommended budget is based on the initial construction cost of the SMaRT Station. It is anticipated that the cost for the ultimate replacement will be refined during the planning phase of the project.

#### Recommended FY 2014/15 Solid Waste Rate Increase

The rate increase proposed for solid waste and recycling services for FY 2014/15 is 6%, two percentage points higher than planned last year. The projected increases for the remainder of the planning period are reflected at the bottom of the Solid Waste Management Long-Term Financial Plan (Attachment 7).

The detailed Solid Waste Rate Survey is presented as Attachment 8. As shown in Attachment 1, Monthly Utility Bill Comparisons - Single Family Residential, the City’s residential solid waste and recycling rate is competitive when compared with neighboring cities.

#### **FISCAL IMPACT**

The proposed utility rate changes are necessary to maintain the City's utilities in a sound financial and operational condition. Even with the proposed changes, Sunnyvale's utility rates remain competitive when compared to current rates charged in other cities.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

### **ALTERNATIVES**

1. Adopt the resolution as presented in Attachment 9, increasing water rates by 5%, wastewater rates by 9%, and solid waste rates by 6% for FY 2014/15.
2. Adopt rates less than those proposed.
3. Take no action on rates and leave the existing rates in effect.
4. Continue the hearing to a future date to consider rates higher than those proposed, which would require additional Proposition 218 noticing.

### **STAFF RECOMMENDATION**

Alternative 1 - Adopt the resolution as presented in Attachment 9, increasing water rates by 5%, wastewater rates by 9%, and solid waste rates by 6% for FY 2014/15.

Prepared by: Janice Broussard, Utility Billing Manager

Reviewed by: Grace Leung, Director, Finance

Reviewed by: John Stufflebean, Director, Environmental Services

Approved by: Robert A. Walker, Interim City Manager

### **ATTACHMENTS**

1. Monthly Utility Bill Comparisons - Single Family Residential
2. Monthly Utility Rate Comparisons - Commercial
3. Recommended FY 2014/15 Water Supply and Distribution Fund Long Term Financial Plan
4. Water Rate Survey
5. Recommended FY 2014/15 Wastewater Management Fund Long Term Financial Plan
6. Wastewater Rate Survey
7. Recommended FY 2014/15 Solid Waste Management Fund Long Term Financial Plan
8. Solid Waste Rate Survey
9. Proposed Resolution, including Exhibit A - Schedule of Proposed Service Rates
10. Tax Roll Detail for Wastewater Services Provided Outside the City Limits
11. Map of Wastewater Service Area Outside the City Limits