



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Proposed Modification to the Water Rate Structure for Mobile Home Parks for Fiscal Year 2016/17

BACKGROUND

As part of the annual process of reviewing the financial condition of the utility enterprise funds, staff makes recommendations to the City Council to adopt changes in utility rates. Council typically holds a public hearing in June to set the rates for the coming year. This was most recently done on June 21, 2016 and the rates became effective on July 1, 2016 for the 2016/17 Fiscal Year.

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.

To ensure that the utility rates are based on actual cost, staff conducts a cost of service study approximately every five years for each of the utilities. A water cost of service study was completed in FY 2015/16, with the recommendations from the study included in the proposed rates for FY 2016/17. Subsequent to noticing the June hearing, staff identified that the rates that were proposed to be charged to mobile home park owners (the City's direct customers) and those that park owners would pass on to their residents were inconsistent in that the mobile home park owners are charged a flat rate while passing on a tiered rate to residents. Staff is recommending a fix to the City's rate structure to address this issue.

Public Noticing Requirements

Sunnyvale continues to comply with the noticing provision for utility rates as required by Proposition 218 and AB 1260. To accommodate this change to the mobile home park rates, staff sent notices to the impacted customers (mobile home park managers/owners). A total of fourteen notices were sent to mobile home park managers/owners on December 16, 2016, notifying customers of the public hearing and protest process.

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 January 31 Council meeting, adding any valid written protests received at the meeting, and summarize the total number for Council. A majority of protests exists if eight 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 unless accompanied by a written 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 no protests.

EXISTING POLICY

Sunnyvale Municipal Code Section 12.24.010 authorizes the City Council to establish by resolution fees and charges based on cost influencing factors.

Policy 7.11.1a.5 of the Council Policy Manual states "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

Public Resource Code Section 21080(b)(8) of the California Environmental Quality Act (CEQA) and CEQA Guidelines Section 15273 provide that CEQA does not apply to the establishment, modification, structuring, or approval of rates, tolls, fares and other charges by public agencies which the public agency finds are for the purposes 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; and (4) obtaining funds for capital projects necessary to maintain current service levels.

DISCUSSION

Sunnyvale completes a cost of service study approximately every five years to be certain each customer class is properly aligned with the revenue needs to service their class. The City of Sunnyvale contracted with a rate consulting firm to conduct a water rate study in FY 2015/16, with the implementation of those recommendations being included in the FY 2016/17 utility rates. The consultant reviewed the City's current rate structure and made recommendation to ensure that the fund's revenue needs were met and to correctly allocate rate revenue to each customer class.

The City's water bills consist of two different types of rates, a fixed charge based on customer meter size and a volumetric charge. Single family rate payers are billed with the two-tier rate structure. Large users, however, are billed with a volumetric charge only.

While the City has no involvement in the bills park residents receive for their utility service from park owners, it is important to consider how park owners are required to pass on costs to their residents. Section 2705.5 of the California Public Utilities Code allows mobile home parks with a master meter to provide water service to mobile home park residents through a submeter as long as the mobile home park tenants are charged at the same rate as if the residents were receiving water service directly from the City. The City's rate ordinance was unclear on what this rate would be. Staff's interpretation is that if the City were serving individual mobile homes directly, they would be charged the same rate structure as Single Family Residences. This results in parks potentially not being able to recover the cost of water billed by the City. This report recommends the addition of some clarifying language regarding the charges for mobile home residents and changes to the rate structure charged to mobile home parks to align the charges to mobile home parks with the water charges parks can pass on to their residents.

To accomplish this, staff is recommending that the FY 2016/17 rates be modified to include a two-tiered rate structure for mobile home parks (the City's direct customer). The tiered rate structure will be the same as the one currently in use for single family customers, enabling mobile home parks to bill their tenants to recover their actual water consumption cost. The attached Notice of Public Hearing (Attachment 1) reflects the proposed change to the water rates.

In order to implement these rates, a Proposition 218 notice is required for all affected customers (in this case mobile home park owners) 45 days in advance of a public hearing. This notice was mailed on December 16, 2016, in anticipation of tonight's meeting. Staff recommends implementing this change retroactively to July 1, 2016. If approved by Council, staff will credit the accounts of all mobile home parks impacted by this change to reflect the tiered rate structure.

FISCAL IMPACT

All revenues from water services go to the Water Supply and Distribution Fund to be used for purchasing wholesale water and operating and maintaining the City's water system. The proposed utility rate change still recovers the costs of operating the system and therefore there is no fiscal impact with making this change.

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 Web site.

As detailed in the background section of this report, Sunnyvale continues to comply with the noticing provision for utility rates as required by State law (Proposition 218).

ALTERNATIVES

1. Find that the project is exempt from CEQA pursuant to Public Resources Code Section 21080(b)(8) and CEQA Guideline 15273 because it approves rates and charges for the purposes 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; and (4) obtaining funds for capital projects necessary to maintain current service levels.
2. Adopt a Resolution to Modify the FY 2016/17 Utility Fee Schedule for mobile home park owners.
3. Keep the rates as adopted on June 21, 2016 and take no further action at this time.

STAFF RECOMMENDATION

Alternatives 1 and 2: 1) Find that the project is exempt from CEQA pursuant to Public Resources Code Section 21080(b)(8) and CEQA Guideline 15273 because it approves rates and charges for the purposes 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; and (4) obtaining funds for capital projects necessary to maintain current service levels; and 2) Adopt a Resolution to Modify the FY 2016/17 Utility Fee Schedule for mobile home park owners.

Prepared by: Janice Broussard, Utility Billing Manager
Reviewed by: Timothy J. Kirby, Director of Finance
Reviewed by: Walter C. Rossmann, Assistant City Manager
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Notice of Public Hearing
2. Resolution