



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Proposed Utility Rate Increases for FY 2017/18 Rates for Water, Wastewater, and Solid Waste Utilities for Services Provided to Customers Within and Outside City Boundaries; Finding of CEQA Exemption Pursuant to Public Resource Code Section 21080(b)(8) and CEQA Guidelines Section 15273

#### **REPORT IN BRIEF**

As part of the yearly process of reviewing the financial condition of the utility enterprise funds, 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 overall increases are as follows: 12.5% increase in water rates, a 10% increase in wastewater rates, and a 3% increase in solid waste and recycling rates. These increases will result in the average single-family monthly bill going up by:

Water	\$6.71
Wastewater	\$4.29
<u>Solid Waste and Recycling</u>	<u>\$1.37</u>
Total	\$12.37

The new total average single-family monthly bill will be \$154.58 from \$142.21, an increase of approximately 8.7% 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. It is important to note that different cities fund different suites of services with their utility fees so care must be taken in comparing average rates.

The proposed rate increases are included in the FY 2017/18 Recommended Budget. Each year, staff provides Council with not only proposed rates, but also planned changes in rates over twenty years. The proposed increase in water rates is 2.5% lower than previously planned. The anticipated increase was reduced due to lower than expected rate increases by the City's wholesale water providers. However, it is expected that customers will continue their conservation efforts even though the drought is over, which will be an ongoing challenge for water revenues. The utility is also facing significant rehabilitation costs for water infrastructure. The proposed increase in wastewater rates is two percent higher than previously planned, and is necessary to cover increasing infrastructure and capital costs of the City's aging wastewater treatment plant and collection system. The proposed solid waste rate increase is unchanged from last year's financial plan, and is largely to cover the cost

of implementing the City's Zero Waste goals.

## **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 in separate 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, 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 Reserves 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**

In accordance with Proposition 218, notices of proposed utility rates were mailed on April 28, 2017. 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 unless accompanied by a written protest. Protests received from residents who are not either property owners or utility account holders shall not be counted.

As of the preparation of this report, staff has received 230 protests. These fall into five categories. Staff has received 151 protests that simply protest the rate increases. 29 protests state that either the rates are too high already or raising rates under the current economic conditions is unreasonable and the City should lower costs instead. Eight protests state they resent raising rates because of reduced revenue due to water conservation efforts. The fourth category of protests, of which staff has received 31, base their objection on the protestor's low or fixed income. Lastly, 11 protestors object to the new FoodCycle program, stating that the program is too costly and decreases their garbage capacity.

## **EXISTING POLICY**

Sunnyvale Municipal Code sections 12.16.020 (Wastewater), 12.24.010 (Water), and 8.16.100 (Solid Waste) authorize 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**

### **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 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 long-term sustainable financial position.

The largest component of the Water Fund’s revenue requirement is the cost of purchasing water. Sunnyvale currently receives water from four different sources. For FY 2017/18, approximately 55% of potable water deliveries are projected to come from the Hetch-Hetchy system operated by the San Francisco Public Utilities Commission (SFPUC), 44% from the Santa Clara Valley Water District (SCVWD), and 1% from well water. The City also produces recycled water at the City’s Water Pollution Control Plant (WPCP). The recycled water production system is currently being renovated, with the construction scheduled to be completed in late summer or early fall of 2017. When fully operational, the recycled water system will be able to provide a larger percentage of the City’s supply as well as provide water to other jurisdictions through a partnership with the Santa Clara Valley Water District. Staff strives to purchase water at the lowest possible cost. The City’s system allows the movement of potable water from one portion of the City to another and staff monitors and adjusts purchases based on demand and the ability to utilize the most cost effective source, balanced with our minimum contractual requirements for purchases.

This winter, Sunnyvale and the rest of California was fortunate to get a significant amount of rainfall, bringing the long-standing drought to an end. This rainfall brought an end to some of the conservation enforcement measures put in place during the drought, and caused the City’s wholesalers to reduce their anticipated rate increases. However, the drought also brought structural fiscal challenges to the water fund, as it is projected that water conservation behavior will continue, resulting in lower revenue to support fixed costs.

The primary challenge is related to the “take or pay” provisions in Sunnyvale’s agreements with both wholesalers. The City’s agreements with each wholesaler indicate a minimum quantity of water to be purchased each year, and if not met, Sunnyvale is liable for the difference up to the minimum quantity. During the drought, the wholesalers waived the minimum purchase requirements to encourage conservation. Effective July 1, 2017, both SCVWD and SFPUC plan to resume enforcement of their contractual minimums. However, the City has negotiated a lower “take or pay” amount and revised downward its three-year delivery schedules with SCVWD in anticipation of this situation. Nevertheless, the City is projecting overall water purchase costs to rise a further 17%.

Throughout the twenty-year financial plan, projections assume that water conservation efforts will continue, and that sales will not return to the levels seen in FY 2013/14 until FY 2022/23. This anticipated reduction affects both the revenue and expenses of the Fund. Since the City’s suppliers are resuming enforcement of the contractual minimums the cost of purchased water becomes largely a fixed cost that makes up a significant portion of the Water Fund’s expenditures at 62% of the total fund budget for FY 2017/18.

Both the SFPUC and the SCVWD provided wholesale rate projections for the next ten years. The projected increases do not reflect changes in the Bay Area Water Supply & Conservation Agency (BAWSCA) Surcharge or any other costs related to purchasing water. These projections are in the base rate for the long-term rate projections in the twenty-year financial plan. The table below reflects the proposed projections for both agencies.

<b>Projected Increases in Base Wholesale Rates</b>		
<b>Fiscal Year</b>	<b>SFPUC</b>	<b>SCVWD</b>
2017/18	0%	9.9%
2018/19	2.8%	9.9%
2019/20	3.2%	10.9%
2020/21	10.1%	10.9%
2021/22	9.9%	10.9%
2022/23	3.8%	10.9%
2023/24	4.0%	9.8%
2024/25	3.8%	7.6%
2025/26	3.8%	2.7%
2026/27	0.8%	2.7%
Total Increase in Rates over period	55%	109%

Based on the rate increases listed above, the anticipated cost of SFPUC water for FY 2017/2018 is unchanged at \$1,786 per acre foot, while SCVWD is expected to charge \$1,178 per acre foot. The City also incurs charges from the SCVWD for pumping ground water from City wells. The unit cost for well water is also influenced by the power costs associated with running the pumps. The projected well water total unit cost (tax plus power) for FY 2017/18 is \$1,189 per acre foot, an increase of 17.9% over the current year unit cost of \$1,008.

It is also important to note that, while not anticipated, it is possible that the wholesalers could adopt a mid-year rate increase. Should that occur, a provision was included in the City's required Proposition 218 noticing that would allow the City to pass those costs on to customers. This provision is a pass-through charge, which will pass the higher cost of the water procured for the remainder of the year to the City's water customers. The formula to be used to calculate the surcharge, if needed, is as follows: Total expected cost increase for wholesale water purchases through the fiscal year end divided by the total budgeted expenditures for the purchase of wholesale water for the remainder of the fiscal year. The percentage increase determined by this calculation will be applied to utility bills as a surcharge for each unit of water used for the balance of the fiscal year (ending June 30, 2018). If the wholesalers do not implement any rate increases mid-year, no surcharge will be necessary. If it is necessary for the City to implement the pass-through charge, the City will send notice to water customers at least 30 days prior to the implementation of the fee. While this surcharge provision will prevent any negative impact to the Water Fund from potential mid-year increases, it could result in higher than anticipated utility charges for the City's water customers.

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. Recycled water costs are funded jointly by the water and wastewater funds. Due to production limitations and increased chemical requirements, the City has scaled back its recycled water production. Plans are under way to complete construction on the recycled water production system which should allow for increased production reliability. Additionally, staff and SCVWD have ongoing discussions to partner in significant capital improvement projects that may bring recycled water to more areas of the City. One such project nearing completion is the expansion of the recycled water system along Wolfe Road to Homestead Road.

#### Operations and Capital Expenses

The FY 2017/18 Budget for the Water Fund also includes approximately \$6.9 million for personnel and other costs related to operating and maintaining the water supply and distribution system. Additionally, the Water Fund contains annual debt service of approximately \$2.0 million in FY 2017/18, primarily for payment of the City's Water Revenue Bonds Series 2010. This \$24 million bond was issued in 2010 to refund the City's 2001 water and wastewater revenue bonds, as well as provide approximately \$18 million in new funding to address capital and infrastructure needs of the water utility.

Water infrastructure renovation is a major driver of water utility costs. The City has been addressing its aging water utility infrastructure for several years now. Like most municipalities in the state and the country, much of Sunnyvale's water storage and distribution system is over fifty years old and in need of significant rehabilitation. The highest priority has been placed on water pipe replacements. With approximately 350 miles of water lines, many in need of replacement, replacements have been emphasized, with approximately \$72.7 million in replacements planned over the next twenty years. These pipe replacements must be done to minimize water service interruptions due to potential failures of the aging infrastructure. Infrastructure funding for the refurbishment of water tanks across the City is also included in the FY 2017/18 financial plan.

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 entered into a partnership agreement with SCVWD to fund this significant expansion of the recycled water system. This project will provide for the delivery of 0.74 million gallons per day of additional recycled water for use within the City of Sunnyvale and adjacent communities. The project will also serve the new Apple campus, and Apple has contributed funding to the project. The City and District also obtained a State grant for \$4 million for this project and the recycled water improvements at the WPCP. Recycled water deliveries through the new extension will begin in the coming months.

As required by City policy, the Water Supply and Distribution 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 funded projects and debt funded projects to manage the flow of these funds against project expenditures that are uneven by nature.

#### Recommended FY 2017/18 Water Rate Increase

The proposed Water Supply and Distribution Fund Long-Term Financial Plan (Attachment 3) reflects the recommendation that water charges increase by 12.5%. The projected rate increases anticipated over the remainder of the 20 years are shown at the bottom of the Water Supply and Distribution Fund Long Term Financial Plan. The rate notice sent to customers in accordance with Proposition 218 allows any unanticipated mid-year rate increases implemented by the wholesale water providers to be passed on to the City's water customers in addition to the recommended rate increase. Council may also elect to implement any rate lower than the staff recommendation of 12.5%. Any increase larger than the staff recommendation would be subject to additional Proposition 218 noticing.

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 City owns and operates an extensive system for management of wastewater within City limits and in a small area in northern Cupertino and San Jose. Wastewater rates pay for the safe and reliable removal and treatment of wastewater from all residences and businesses in Sunnyvale and in the area serviced outside the City. Wastewater rates also pay for storm water management, non-point source pollution prevention and other critical public services. The Wastewater Management Fund (Attachment 5) accounts for the revenues and expenses related to the City-operated wastewater collection and Water Pollution Control Plant services.

The system includes approximately 290 miles of sewer pipes, a storm drainage system, 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, and many other services related to wastewater. It is important to note that the Grade V classification of the City's WPCP is the highest grade, and that the discharge requirements for Sunnyvale are among the most stringent anywhere due to the ecological sensitivity of the South San Francisco Bay.

#### Operations and Project Expenses

The proposed FY 2017/18 operations expenses in the Wastewater Management 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. The most significant is the renovation of the City's WPCP. The recommended FY 2017/18 Budget includes planned infrastructure expenditures of approximately \$723 million over twenty years, with \$658 million (or 91%) allocated to the WPCP renovation project.

The most significant of the WPCP renovation projects to date is the design and construction of new primary treatment facilities. This project is currently underway, with site preparation nearing completion and the construction contract award of the Primary Treatment Facility approved by Council on May 23, 2017. 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 need replacement. The new facilities will be located at the current bio-solids drying operation location, adjacent to the current influent pump station. As a result, bio-solids drying operations are being performed mechanically by a vendor contract until the new bio-solids facilities are constructed. Other phase one projects include new parking on Caribbean Drive and Bay Trail access enhancements, and rehabilitation of influent pipelines to the treatment facility.

The second phase of the Master Plan includes new buildings for maintenance, administration staff, and a laboratory, new secondary treatment, as well as a new thickening and dewatering facility and other piping and draining upgrades. Pre-construction and design activities are underway.

The WPCP renovation project also includes \$46.5 million for Program Management Services and \$33.0 million for Construction Management. The Program Management Consultant (PMC) is responsible for quality assurance related to project design documents and will assist the City in evaluating design consultant recommendations for equipment selection and design features. The PMC provides oversight and coordination for the overall program implementation of the reconstruction program including establishing, maintaining, and tracking project budgets and schedule. The construction management consultant provides additional technical, engineering, and project support such as contractibility reviews, construction oversight, inspection services, quality assurance testing, construction schedule and budget management, construction coordination, meeting management and records management to deliver the projects in the program.

In addition to the work on the WPCP, a high priority has been placed on sewer infrastructure improvements. The City's wastewater collection system needs significant rehabilitation due to its age, and the FY 2017/18 Budget includes \$17 million to provide sanitary sewer pipe improvements. The wastewater collection system consists of over 300 miles of sewer mains, with supporting pump and lift stations. The system has five major sewer trunk lines that terminate at the WPCP where sewage is treated. sanitary. Funding of \$1.4 million is allocated for immediate repairs and further analysis of the Lawrence Expressway trunk line. Additional funding may be necessary based upon the conclusion of additional analysis on that sewer project.

The Wastewater Fund also includes debt service payments, which 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. These new funds have been spent, with some of the bond proceeds funding the initial efforts for the renovation of the WPCP. Future debt has been reflected with debt service payments noted in the *New WPCP Debt Service* line item of the Wastewater Management Fund Long-Term Financial Plan (Attachment 5). In April 2017, the City finalized documents obtaining a \$127 million loan from the Clean Water State Revolving Fund Loan Program. The payments on this loan are reflected in this line item, with additional payments projected in the future for upcoming project phases. The actual amount and structuring 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 this program. At its completion, the City will be paying significant annual debt service, anticipated to be approximately \$41.4 million each year, accounting for approximately almost half of the fund's total resource requirements.

The Wastewater Management Fund by policy maintains a Contingency Reserve of 25% of operations and a Rate Stabilization Reserve to normalize rates and provide for the effect of economic cycles. The Fund also contains a capital and infrastructure reserve at 10% of service fee revenue and a debt service reserve based upon bond covenants of issued or anticipated debt.

#### 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, tonight's public hearing 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 9. A map of the service area outside the City is provided as Attachment 10.

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 and businesses 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.

#### Recommended FY 2017/18 Wastewater Rate Increase

The rate increase proposed for Wastewater services for FY 2017/18 is 10%, which is two percent higher than last year's budget projections. 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 been issued an exclusive franchise for collection of solid waste and recyclable materials through 2021, and these contract costs are reflected in the Solid Waste Management Fund. Operations of the Sunnyvale Materials Recovery and Transfer Station (SMaRT Station) and disposal of refuse at the Kirby Canyon Landfill are included in a separate fund, and the City's share of these expenses and revenues is reflected in the Solid Waste Management Fund.

The City's contract with Specialty for the collection of solid waste and recyclables throughout the City is the largest single expense within the Solid Waste Fund. Specialty is paid on a monthly basis, but its payment is determined for a year based largely on formulas that take actual expenses in the last completed fiscal year and adjusting them for inflation and profit permitted under the Franchise Agreement. 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 Franchise Agreement. The projected FY 2017/2018 contractor payment is \$21 million, which is a 3.7% increase from the current FY 2016/17 contractor payment. This increase is in line with San Francisco Bay Area December 2016 CPI-U rate, driven by a combination of equipment fees related to new food scrap collection service and rising fuel charges.

City operations costs in the Solid Waste Fund account for approximately 15% 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 includes a project to implement the City's Zero Waste policy. The project has been updated to include \$35 million over twenty years to fund new practices aimed at meeting the Zero Waste Strategic Plan goals of 75% diversion by 2020. This project does not incorporate the costs necessary to reach the goal of 90% diversion by 2030 due to uncertainty regarding legal and technical barriers to meeting the 90% goal. Methods planned to increase the diversion rate include implementation of new SMaRT equipment, programs related to food scraps and commercial yard trimmings, and the implementation of City-wide multi-family recycling. The additional diversion is expected to generate approximately \$889,000 per year in operating savings due to a reduction in landfill expenditures.

In FY 2017/18, a residential split cart program called FoodCycle will be implemented. The new carts will accommodate a smaller garbage volume than the current carts, but there will be an additional separate compartment for food scrap collection. This program is being implemented following a successful pilot of the carts during FY 2016/17. Food scraps make up approximately 30 percent of the garbage collected from Sunnyvale homes and contribute to greenhouse gas production when they decompose in a landfill. Through FoodCycle, residents will separate this valuable resource and place it in the food scraps side of the new cart. The carts will be emptied into a two-compartment truck that keeps food scraps and garbage separate. Then, instead of sending food scraps to the landfill, they will be taken to a local facility to be made into a protein-rich ingredient for pig, fish, and

chicken feed. Participation in FoodCycle will help Sunnyvale reach its Zero Waste goal of keeping 75 percent of our waste out of the landfill by 2020.

The Solid Waste Management Fund Long-Term Financial Plan (Attachment 7) reflects two inter-fund loans that were advanced from the General Fund between FY 1985/1986 and 1998/1999. The first loan provided a total of \$3.68 million 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 were refinanced this year, generating interest savings of over \$4.8 million for the remaining term of the loan, with no changes to the payoff schedule.

Additionally, in order to help bridge the gap of depressed cash flow from the recession to recovery, the Solid Waste Management Fund reflects a \$2 million loan from the Wastewater Management Fund. Payment was deferred to FY 2015/16 and then scheduled to be repaid over a six-year period. This helps the Solid Waste Fund with cash flow and then helps the Wastewater Management Fund in the future as its cash needs increase to fund the new WPCP. This was also refinanced, reflecting interest savings of over \$161,000 over the repayment period.

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 is anticipated to 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 the purchase of the 505 West Olive Avenue Government Center property.

By fiscal policy, the Solid Waste Fund maintains a Contingency Reserve of 10 percent of operations. This is less than the 25 percent 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 Water and Wastewater utilities.

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

In 1992, the City of Sunnyvale entered into a Memorandum of Understanding (MOU) with the cities of Palo Alto and Mountain View for the operation of the SMaRT Station. The three cities that participate in the SMaRT Station have individual agreements with Waste Management, Inc. for landfill disposal at the Kirby Canyon Landfill in San Jose. Sunnyvale and Mountain View agreed to deliver all of their garbage and residential recyclables, including yard trimmings, to SMaRT. In 1992, at the start of the MOU, Palo Alto operated its own landfill and facilities for yard trimmings, compost, and recycling. Palo Alto thus committed to deliver only specific amounts of garbage that vary from year to year. The SMaRT Station is operated by a private company under contract with the City. In June 2014, the City Council awarded a new contract for operation of the SMaRT Station to Bay Counties Waste Services. Bay Counties Waste Services has been operating the SMaRT Station since 2008 and their new contract runs through 2021.

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. Those bonds were refinanced in FY 2014/15 to take advantage of the lower interest rates available, generating a savings to the City's debt service obligations of approximately \$956,000. The

debt service on the bonds is shared among the three cities as specified in the MOU.

The SMaRT Station Operations Fund was established to account for operations at the facility. It receives revenue from the 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 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 2020/21 for replacement of materials recovery facility equipment.

Staff anticipates 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 provided for planning and inter-jurisdictional coordination in FY 2017/18 through FY 2019/20, with design and construction following in FY 2020/21 through FY 2022/23. This project could replace the SMaRT station, or it could 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 2017/18 Solid Waste Rate Increase

The rate increase proposed for solid waste and recycling services for FY 2017/18 is 3%, which is less than planned in last year's budget. 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 and have been incorporated in the FY 2017/18 Recommended Budget. 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 Web site.

As detailed in the background section of this report, as required by State law (Proposition 218) Sunnyvale issued notices for utility rate increases.

### **ALTERNATIVES**

1. Find that the project is exempt from CEQA pursuant to Public Resources Code Section 21080(b)(8) and CEQA Guidelines Section 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 increasing water, wastewater, and solid waste rates for FY 2017/18.
3. Adopt rates lower than those proposed.
4. Take no action on rates and leave the existing rates in effect.
5. Continue the hearing to a future date to consider rates higher than those proposed, which would require additional Proposition 218 noticing.

### **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 Guidelines Section 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 increasing water, wastewater, and solid waste rates for FY 2017/18.

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. Combined Monthly Utility Bill Comparisons - Single Family Residential
2. Utility Rate Comparisons - Commercial
3. Recommended FY 2017/18 Water Supply and Distribution Fund Long Term Financial Plan
4. Water Rate Survey
5. Recommended FY 2017/18 Wastewater Management Fund Long Term Financial Plan
6. Wastewater Rate Survey
7. Recommended FY 2017/18 Solid Waste Management Fund Long Term Financial Plan
8. Solid Waste Rate Survey
9. Tax Roll Detail for Wastewater Services Provided Outside the City Limits
10. Map of Wastewater Service Area Outside the City Limits
11. Proposed Resolution