



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Proposed Utility Rate Increases for FY 2021/22 Rates for Water, Wastewater, and Solid Waste Utilities for Services Provided to Customers Within and Outside City Boundaries; Finding of California Environmental Quality Act (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.

The recommended increases are 1.5% for water rates, 4% for wastewater rates, and 4% for solid waste and recycling rates. Individual utility costs will vary based on actual use or subscription level; however, a typical monthly single-family residential water, wastewater (sewer), and solid waste (garbage) utility bill will increase by 3%. The proposed monthly rate changes for FY 2021/22 are:

Water	\$0.96
Wastewater	\$2.14
<u>Solid Waste and Recycling</u>	<u>\$1.66</u>
Total	\$4.76

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 changes are included in the FY 2021/22 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 percentage points lower than planned, wastewater is one percentage point higher than planned, and solid waste rates are three percentage points higher than planned.

The proposed increase in water rates is largely due to increases in the cost of purchased water, as well as needed infrastructure improvements. Wastewater rates are increasing due to funding the Sunnyvale Cleanwater Program, an \$850 million long term project to replace the City's aging Water Pollution Control Plant. Solid waste rates are increasing to meet increased state regulations that require additional service to increase organics recycling and reduce the amount of waste sent to landfills.

## **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 rate stabilization reserves enables 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 May 14, 2021. 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 15,000 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 will not be counted.

As of the preparation of this report, staff has received 49 protests. These fall into six categories. Staff has received 23 protests that simply protest the rate increases. Six protests were passed on their objection to rate increases on the protester's low or fixed income. Nine customers cited financial difficulty due to COVID-19 in their protest. Five said the rates are too high already and been increased too often. Two suggested that increased costs be paid with tax dollars or by reducing costs/services in other areas. One raised concerns about the water supply and rising Sunnyvale population and called for more planning controls.

## **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. The cost of purchased water accounts for approximately 61% of the total fund requirements for FY 2021/22. Sunnyvale currently receives water from four different sources. The majority of the City’s water supply is split between two suppliers, with approximately 50.5% of potable water deliveries projected to come from the Hetch-Hetchy system operated by the San Francisco Public Utilities Commission (SFPUC), and approximately 48% from the Santa Clara Valley Water District (Valley Water). The remaining 1.5% comes from well water. Well water is used minimally, primarily to circulate water through the system, keeping the wells fresh and operating. The City also produces recycled water at the City’s Water Pollution Control Plant (WPCP). The recycled water production system was recently renovated, enabling recycled water to provide a larger percentage of the City’s supply as well as provide water to other jurisdictions through a partnership with Valley Water. Staff strives to purchase water at the lowest possible cost. The City’s water system allows the movement of potable water from one area of the City to another. 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. These minimum purchase requirements, also known as “take or pay” provisions, are 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.

On June 9, 2021, Valley Water declared a water shortage emergency and urged Santa Clara County to proclaim a local emergency. Valley Water is calling for a 15% water use reduction compared to 2019 water use. SFPUC has indicated that they have adequate water supply to meet water demands; however, they are requesting 10% voluntary water use reduction in irrigation during the summer months (compared to 2020 water use) from their retail customers and similar approaches to control summer peak use from their wholesale customers like Sunnyvale. Staff will be bringing forward a resolution declaring a water shortage emergency with recommended water use restrictions for Council consideration in the near future. In the meantime, many of the water waste measures Valley Water is requesting cities implement are already included in Sunnyvale's Municipal Code.

Both the SFPUC and Valley Water provided wholesale rate projections. 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 as well as a cumulative percentage increase using FY 2021/22 as the base year, reflecting that over the next ten years, the increase in the unit cost for wholesale water is projected to increase 90.8% from the current cost.

Projected Increases in Base Wholesale Rates			
Fiscal Year	SFPUC	Valley Water	Cumulative Impact <sup>1</sup>
2020/21 (Actual)	0%	0%	
2021/22	0%	9.6%	4.2%
2022/23	2.2%	9.6%	13.5%
2023/24	16.2%	9.6%	24.4%
2024/25	3.3%	9.6%	32.9%
2025/26	8.3%	9.6%	43.9%
2026/27	0%	9.6%	53.1%
2027/28	7.0%	9.6%	63.0%
2028/29	1.2%	9.6%	71.9%
2029/30	0%	8.7%	79.7%
2030/31	3.1%	8.7%	90.8%

1. Column represents the cumulative increase in the total unit cost for water from both suppliers from FY 2020/21 as the base year.

Based on the rate increases listed above, the anticipated cost of SFPUC water for FY 2021/22 is unchanged at \$1,786 per acre foot, while Valley Water is expected to charge \$1,506 per acre foot, an increase of 9.6%. The City also incurs charges from Valley Water 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 2021/22 is \$1,659 per acre foot, an increase of 9.4% over the current year unit cost of \$1,516.

Given the current drought concerns, there is a possibility that these projections could change significantly over the next few years if the drought continues. 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, 2022). 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.

#### Operations and Capital Expenses

The FY 2021/22 Budget for the Water Fund also includes approximately \$7.4 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 \$1.2 million in FY 2021/22, primarily for payment of the City's Water Revenue Refunding Bonds Series 2017.

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 \$96 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 over twenty years in the FY 2021/22 financial plan.

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 2021/22 Water Rate

The proposed Water Supply and Distribution Fund Long-Term Financial Plan (Attachment 3) reflects a 1.5% increase in the water rates for FY 2021/22. 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. Council may also elect to implement any rate lower than the staff recommendation. Any increase larger than the staff recommendation would be subject to additional Proposition 218 noticing.

Attachment 1 shows monthly residential utility bill comparisons. The detailed Water Rate Survey is presented as Attachment 4. 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 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 2021/22 operations expenses in the Wastewater Management Fund reflect personnel, chemicals, and other costs. Additionally, the wastewater utility is facing even larger infrastructure challenges than the water utility. The most significant is the renovation of the City's Water Pollution Control Plant (WPCP). The WPCP Master Plan, approved by Council in 2016, serves as a long-term guide for replacing the WPCP's facilities and operations. The projects described in the Master Plan are now being implemented as the Sunnyvale Cleanwater Program (SCWP). The recommended FY 2021/22 Budget includes planned infrastructure expenditures of approximately \$855 million over twenty years, with approximately \$756 million (or 88%) allocated to SCWP.

The first phase of the Master Plan is ongoing with site demolition and grading work completed and the construction of the Primary Treatment Facility underway. This includes a new headworks 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 existing primary treatment facilities are structurally deficient, deteriorated, and susceptible to significant failure during a seismic event. The current influent sewage pump station includes gas-powered engines that are under regulatory deadline for replacement. The new headworks and primary facilities will be

located at the previous biosolids drying operation site, adjacent to the current influent pump station. Currently, biosolids drying operations are being performed mechanically by a vendor contract until new biosolids facilities are constructed. Other Phase 1 projects include new parking on Caribbean Drive and Bay Trail access enhancements (completed in 2020) and rehabilitation of influent pipelines to the treatment facility, relining the pipeline connecting the treatment ponds to the main plant, and miscellaneous repairs to the secondary and tertiary facilities (currently under design). The largest of these projects, the Primary Treatment Facility, is expected to be completed in FY 2021/22.

The second phase of the Master Plan includes a new Cleanwater Center, new secondary treatment and thickening/dewatering facilities, improvements to the recycled water pump station, community improvements for improved site access and public education, and rehabilitating select components of existing support utilities. Design activities are underway on two of these projects now. In the FY 2021/22 budget, one of the largest components of this phase, the Cleanwater Center, is now unfunded, and the funds have been reprogrammed to other Cleanwater Program expenditures. If cost-saving efforts on the Cleanwater Program are successful, the savings can be recaptured to build the Cleanwater Center at a later date.

The third phase of the Master Plan includes a new filter control building, a fifth digester, a new food waste and fats/oils/grease treatment facility, condition assessment of existing facilities not inspected in Phase 1, and a replacement of the existing cogeneration facility. These activities will begin with an update to the Master Plan in FY 2024/25.

The Sunnyvale Cleanwater Program also includes \$50.7 million for Program Management Services and \$29.8 million for Construction Management. The Program Management Consultant (PMC) is responsible for quality assurance related to engineering and will assist the City in evaluating technical recommendations for equipment selection and design features. The PMC provides oversight and coordination for overall program implementation, including establishing, maintaining, and tracking project budgets and schedule. The construction management consultant (CMC) 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 2021/22 Budget includes \$29.6 million to provide sanitary sewer pipe improvements.

The Wastewater Fund has an inter-fund loan advanced from the General Fund. The 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. The original term was for 20 years; however, payments were periodically deferred or delayed helping balance cash needs in the Wastewater Fund. Regular payments have been made as scheduled since FY 2004/05. This loan was refinanced at a lower interest rate for FY 2017/18 with no changes to the pay-off scheduled for FY 2027/28.

In the first year of the financial plan, approximately \$2 million annual debt service payments are included for the 2017 Wastewater Revenue Refunding Bonds. In addition to the 2017 Bonds, there are three types of debt service tied to the Cleanwater Program. The first is repayment of the Clean Water State Revolving Fund Loan program for the Primary Treatment Facilities. This payment is approximately \$5.3 million annually for the duration of the financial plan. The second is the Water Infrastructure Finance and Innovation Act (WIFIA) loan repayment, which funds 49% of the second phase of the SCWP. These payments start in FY 2029/30 at approximately \$1.9 million and increases to \$3.8 million for the duration of the Plan. This loan was structured to back load the principal payments starting in FY 2054/55, allowing flexibility in the near term to finance the other portion of the project. The remaining Cleanwater Program debt service covers traditional revenue bonds that would fund the projects not funded through the other two loans, as well as the other 51% of the WIFIA funded projects. With \$650,000 in debt service scheduled for FY 2021/22 increasing to nearly \$18.4 million annually by FY 231/32.

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 set at a minimum of 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 1,881 parcels 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 to reimburse the City for the costs of providing on-going sewer service.

In January of this year, the City reached out to the City of San Jose to investigate a change that was made to the City of Sunnyvale's sanitary sewer main crossing at Bollinger Road west of Lawrence Expressway. The pipe segment in question carried sewage from Sunnyvale's main on Kimberly Street into the main on Newsom Avenue.

During routine flushing of Sunnyvale's system, the City's sewer crews discovered that a new manhole had been constructed downstream of the City's manhole on the east bound side of Bollinger Road in the area between the right vehicle lane and the bike lane. Sunnyvale's pipeline was plugged, and a new sewer pipe was constructed diverting the flow to the east into the CSJ sewer system.



This is an illegal connection and diversion of sanitary sewer flow from Sunnyvale's system to the City of San Jose's system that affects approximately 140 single family properties. To initiate the process for resolution, Sunnyvale filed a claim with the City of San Jose, who did not deny the claim within the 45-day window. The City is in discussions with the City of San Jose's claims investigator but has not come to resolution.

Under state law, the City cannot charge these properties for services that are not being provided. Staff reviewed the last wastewater cost of service rate study and has identified that the cost for treatment is approximately 27% of the total rate. The remainder of the rate covers fixed costs such as collection, maintenance of the collection system, the cost for debt and capital associated with the system, and the cost to maintain capacity to serve these customers after the City of San Jose corrects the issue. Therefore, staff is recommending that Council adopt the full rate for these properties as noticed and City staff will apply a credit to their assessment to reflect that the actual sanitary sewer is now flowing to the San Jose treatment plant and not the City of Sunnyvale treatment plant. Once the system is restored so that the City of Sunnyvale is providing treatment services, then City staff will no longer apply any credit to their assessment.

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

#### Recommended FY 2021/22 Wastewater Rate Increase

The increase in revenue required for wastewater services for FY 2021/22 is 4%. 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.

#### **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, which expires in 2021. On March 16, 2021, Council authorized a new franchise agreement with Bay Counties Waste Services awarding an exclusive franchise through 2036. 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 franchise with Specialty is the largest single expense within the Solid Waste Fund and makes up 32% of the total expenses in the FY 2021/22 Adopted Budget for the solid waste system. The City's 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. With a new agreement in place starting in FY 2021/22, costs also include numerous new services, such as an expansion of yard waste and food scraps collection to additional customers. These service changes are necessary to meet diversion goals and maintain compliance with Senate Bill (SB) 1383. The additional services required by the State through SB 1383 will significantly increase contract costs starting in FY 2021/22. The projected FY 2021/22 contractor payment is \$25.3 million, which is over 10% higher

than the current FY 2020/21 contractor payment. This increase is largely due to the new services offered to meet State requirements, and larger than average increases will be seen annually in the short term as additional services are added.

The Fund also includes a project to implement the City's Zero Waste policy. The project includes \$6.2 million to fund outreach for practices aimed at meeting both existing organics and recycling regulations for the commercial and multi-family sector (AB 1826 and AB 341), new regulations requiring the collection of organics from all sectors (SB 1383) and the Zero Waste Strategic Plan goal of 90% diversion by 2030. All operating costs for these new services that have already started are now reflected in the operating budget for FY 2021/22. This project does not incorporate the costs necessary to reach the 90% diversion by 2030 due to uncertainty regarding legal and technical barriers to meeting the goal. Methods planned to increase the diversion rate include implementation of new SMaRT Station equipment, programs related to food scraps and commercial yard trimmings, and City-wide multi-family recycling. The current FoodCycle program, implemented in FY 2017/18 for single-family residential customers, will be expanded to commercial and multi-family customers over the next few years. Rates for the split carts are included in the proposed fee schedule for FY 2021/22, and it is anticipated that the services will begin as soon as 2022.

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 1985/86 and 1998/99. 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 in FY 2017/18, generating interest savings of over \$4.8 million, with no changes to the payoff schedule. This loan will be paid in full by FY 2023/24.

Additionally, 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 ending in FY 2021/22. 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 Sunnyvale Clean Water Program. This was also refinanced, reflecting interest savings of approximately \$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.

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 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 MOU is set to expire at the end of 2021 and the City is entering into a new MOU with Mountain View for an additional 15 years. Palo Alto will no longer be a partner post 2021. The three cities that currently 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 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. A new agreement for the operation of the SMaRT Station is in process and is expected to take effect on January 1, 2022. .

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. This share will increase January 1, 2022 to approximately 67% due to Palo Alto's departure from the partnership. 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 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 FY 2021/22 Budget includes \$30 million to fund replacement of the SMaRT Station. The SMaRT Station exists in a corrosive bay-side environment and staff anticipates that the metal building and much of the equipment it houses may be in need of replacement. The new facility will be designed to match the anticipated delivery quantities, the needs of the ongoing facility participants and SB 1383 requirements. This project will be funded by a bond issue, with annual debt service of \$2 million. The project is currently in the planning phase, with design and construction following in FY 2021/22 through FY 2023/24. The recommended budget is based on the initial construction cost of the SMaRT Station and is currently being refined during the planning phase of the project.

#### Recommended FY 2021/22 Solid Waste Rate Increase

The proposed Solid Waste Management Fund Long-Term Financial Plan (Attachment 7) includes a recommended 4% solid waste rate increase for FY 2021/22. The projected rate increases anticipated over the remainder of the 20 years are shown at the bottom of the Solid Waste Management Fund Long Term Financial Plan.

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. The detailed Solid Waste Rate Survey is presented as Attachment 8.

#### **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 2021/22 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, Sunnyvale Public Library and Department of Public Safety; and by making the agenda and report available at 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 rates by 1.5%, wastewater rates by 4%, and solid waste rates by 4% for FY 2021/22.
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: Alternative 1) Find that the project is exempt from the California Environmental Quality Act (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 Alternative 2) Adopt a resolution increasing water rates by 1.5%, wastewater rates by 4%, and solid waste rates by 4% for FY 2021/22.

Prepared by: Stephen Napier, Utility Billing Manager

Reviewed by: Tim Kirby, Director of Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

## **ATTACHMENTS**

1. Combined Monthly Utility Bill Comparisons - Single Family Residential
2. Utility Rate Comparisons - Commercial
3. Recommended FY 2021/22 Water Supply and Distribution Fund Long Term Financial Plan
4. Water Rate Survey
5. Recommended FY 2021/22 Wastewater Management Fund Long Term Financial Plan
6. Wastewater Rate Survey
7. Recommended FY 2021/22 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