

PUBLIC HEARING NOTICE

MEETING OF THE SCOTTS VALLEY CITY COUNCIL

TIME/DATE: 6:30 p.m., *WEDNESDAY, MAY 16, 2012*

PLACE: City Council Chambers, City Hall
1 Civic Center Drive
Scotts Valley, CA 95066

SUBJECT: **CONSIDERATION OF WASTEWATER RATE INCREASE PURSUANT TO PROPOSITION 218**

Documentation regarding the proposed wastewater rate increase was provided to all property owners and tenants 45 days prior to this meeting and is available for public review in the Finance Department at City Hall any week day between 8:00 am to 12:00 pm and 1:00 pm to 5:00 pm.

WARNING NOTICE:

If you challenge the above in court, you may be limited to raising only those issues you or someone else raised at the Public Hearing described in this Notice or in written correspondence delivered to the City of Scotts Valley (1 Civic Center Drive, Scotts Valley) at, or prior to, the close of the public review period.

All interested persons are invited to attend the foregoing Public Hearing or send their written comments to the City Clerk, City Hall, 1 Civic Center Drive, Scotts Valley, CA 95066.

The City of Scotts Valley does not discriminate against persons with disabilities. The City Council Chambers is an accessible facility. If you wish to attend a City Council meeting and you will require assistance, such as sign language, a translator, or other special assistance or devices in order to attend and participate at the meeting, please call the City Clerk's Office at 831-440-5602 five to seven days in advance of the meeting to make arrangements for assistance. The California State Relay Service (TDD to Voice 1-800-735-2929; Voice to TDD 1-800-735-2922) provides Telecommunications Devices for the hearing impaired and will provide a link between the TDD caller and users of regular telephone equipment.


Tracy A. Ferrara
City Clerk

Posted at City Hall, Scotts Valley Senior Center, Scotts Valley Library and on the City's website at http://www.scottsvalley.org/council/agendas_minutes.html on: April 26, 2012



**NOTICE TO PROPERTY OWNERS AND TENANTS OF
PUBLIC HEARING ON WASTEWATER RATE INCREASES
PROPOSITION 218 NOTIFICATION**

Hearing Date and Time: May 16, 2012, at 6:30 PM or as soon thereafter as possible
Hearing Location: City Council Chambers, 1 Civic Center Drive, Scotts Valley, CA 95066

Why is a Rate Adjustment Needed? The last rate adjustment was July 1, 1995. Rates have not changed for 17 years. Due to rising costs and a downturn in the economy, wastewater revenues fell short of expenses by almost \$130,000 in fiscal year 2009-10 and \$228,000 in fiscal year 2010-11. There is an urgent need to close this operating deficit so that revenues meet expenses, and the City can continue to safely treat wastewater from the City's homes and businesses while protecting the local environment. A copy of the current rate study is available at City Hall at the above address or on the City's website at www.scottsvally.org/downloads/2012WastewaterRateStudy.pdf.

Basis of Proposed Rates: Article XIID of the California Constitution requires that the City clearly demonstrate the basis for all property-related rates and charges to residents. Wastewater rates are subject to "cost of service" analysis; that is, your wastewater bill must be calculated in proportion to your usage of the system and the total City-incurred expenses to provide that service. Expenses include the cost of labor, energy, chemicals, maintenance, and other supplies and services. The rates proposed herein are designed to meet all legal requirements and fairly and equitably recover the required revenue from all customer classes.

Wastewater (Sewer) Rates: The City currently charges commercial customers 65 cents per 100 gallons of water used. Residential triplexes and up are included under the commercial rate. For residential customers there are various flat rates depending on the type of residential unit. Currently, the rates for single-family, detached homes are \$25.15 per month; attached units (duplexes, condominiums, townhomes, and apartments) are \$17.61 per month; and mobile homes are \$16.78 per month. The rates for qualifying low-income residential rate payers are 12% lower than the full rate.

Impact on Your Bill: If approved, the new rates would go into effect July 1, 2012, and for the next three years on July 1. On the reverse side of this notice are the proposed rates. In the first year, a single-family, detached home would increase \$1.26 per month.

Compliance with Proposition 218: In 1996, California voters approved Proposition 218 which amended the state constitution relating to the passage of property related fees. Today, Proposition 218 requires the City to 1) inform property owners and rate payers that proposed rate increases are being considered, 2) clearly demonstrate the basis on which these fees/rates are calculated, and 3) hold a public hearing at least 45 days after notification where the City hears all protests to the rate increase. Wastewater rates are subject to "majority protest" meaning they cannot be passed if a majority of property owners or ratepayers impacted by the rate change submit written protest to the City opposing the increase. See the reverse side of this notice for information on how to file a written protest.

How to File a Written Protest: A written protest against the proposed rate change must identify the address of the impacted property and include signature(s) of the property owner(s) or rate payer(s). In compliance with Proposition 218, only one protest for each property will be counted. Your written protest must be received by the City prior to the public hearing on May 16, 2012, at 6:30 pm. The written protest can be filed in person, by mail, e-mailed, or faxed as follows:

In person / mail: City of Scotts Valley
 Attn: City Manager
 1 Civic Center Drive
 Scotts Valley, CA 95066

E-Mail: CityHall@scottsvalley.org
 You must attach a scan of your written protest with signature(s).

Fax: (831) 438-2793

Proposed Rate Adjustments 2012 – 2016:

	<u>Current</u>	<u>07-01-12</u>	<u>07-01-13</u>	<u>07-01-14</u>	<u>07-01-15</u>
% Rate Increase		5%	5%	5%	5%

Fixed Monthly Rate:

Single-Family, Detached	\$ 25.15	\$ 26.41	\$ 27.73	\$ 29.11	\$ 30.57
Attached Units	\$ 17.61	\$ 18.49	\$ 19.42	\$ 20.39	\$ 21.41
Mobile Homes	\$ 16.78	\$ 17.62	\$ 18.50	\$ 19.42	\$ 20.40

Variable Monthly Rate:

Commercial (per 100 gallons water used)	\$.65	\$.68	\$.71	\$.75	\$.79
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**Fixed Monthly Rate for
 Low-income Rate Payer:**

Single-Family, Detached	\$ 22.13	\$ 23.24	\$ 24.40	\$ 25.62	\$ 26.90
Attached Units	\$ 15.50	\$ 16.28	\$ 17.09	\$ 17.94	\$ 18.84
Mobile Homes	\$ 14.77	\$ 15.51	\$ 16.28	\$ 17.10	\$ 17.95

CITY OF SCOTTS VALLEY

WASTEWATER RATE STUDY

MARCH 2012

BACKGROUND

The Wastewater Treatment Plant (WWTP) is operated by seven employees of the City of Scotts Valley. It has a capacity of 1.5 million gallons per day. It was upgraded to this capacity in 1998. Prior to that, the capacity was only 950,000 gallons per day. The City provides wastewater services to approximately 3,400 customers, mostly within the City limits.

The last rate study was performed by David M. Griffith & Associates in July 1992. This resulted in an increase of rates over a four year period. Rates have not increased since July 1, 1995. This current study has been compiled by City staff: City Manager/Finance Director, Public Works Director/City Engineer, and Wastewater & Environmental Program Manager.

The last rate increase put into effect July 1, 1995, has been sufficient to cover the expenses of the WWTP until fiscal year 2010 when the Wastewater Fund incurred a \$129,171 deficit. In fiscal year 2011 the deficit was \$228,524. There is an urgent need to close this operating deficit so that revenues meet current and future expenses, and the City can continue to safely treat wastewater from the City's homes and businesses while protecting the local environment.

Article XIID of the California Constitution requires that the City clearly demonstrate the basis for all property-related rates and charges to residents. This Wastewater Rate Study, March 2012, will provide the basis for the proposed rate adjustments. By law, all property owners and tenants were mailed a notice informing them of the public hearing on the proposed wastewater rate adjustments (see Exhibit 6).

WASTEWATER ENTERPRISE FUND

Fund Accounting:

The Wastewater Fund in accounting terminology is an enterprise fund. It is a separate and self-sufficient fund. By "enterprise fund" this means that this fund relies on charges for services. No City General Fund revenues such as property or sales taxes are used to pay for operations of the WWTP. These charges must cover the current and future costs of the WWTP operations. Future costs include replacement of major equipment and/or infrastructure (i.e. underground pipes) that do not necessarily occur each year but do some time in the future. The Wastewater Fund needs sufficient funds on hand in the future to pay for equipment/infrastructure replacement. Otherwise it must incur long-term debt in order to pay for those costs. Currently the Wastewater Fund has no long-term debt.

Wastewater Revenues/Rates:

The Wastewater Fund has an operations fund, a capital replacement fund, and an impact fee fund. The revenues in the capital replacement and impact fee funds are used to finance capital projects and are not used to cover operating costs. Therefore, this rate study is only considering increases in the operational wastewater rates charged to customers.

Wastewater operational revenues come from both commercial and residential rates. The commercial rate is a variable rate based on water usage. The City obtains water usage records from the Scotts Valley Water District, a separate special district from the City. The current rate is 65 cents per 100 gallons of water used. Besides businesses, the commercial rate also pertains to residential triplexes and above.

For residential customers there is a flat rate. There are three categories: single-family detached, attached units, and mobile homes. In addition to the regular rate for these residential customers, there is a lower rate for qualifying low-income rate payers. Their rate is 12% lower than the regular rate.

For the most part, the wastewater charges are placed on the property tax bill of the property owner. The County of Santa Cruz collects these charges through their property tax collections and remits the sewer charges to the City. There are approximately 200 accounts that are still billed bi-monthly and collected by the City due to the higher amount of their billings. It was decided that having to pay their higher bills in only two property tax installments was a financial burden to the customer. Therefore, their billings were kept with the City and billed throughout the year.

FISCAL ANALYSIS

Four-Year History:

Attached in Exhibit 1 is a four-year history of income and expenses for the last four complete fiscal years to provide some background. This history shows that revenues have been declining. The decrease is in the commercial billings because residential billings are a flat rate while commercial billings are based on usage. With the loss of Aviza in fiscal year 2009 (a major wastewater customer) and many commercial buildings being vacant due to the downturn in the economy, billings have also decreased. This decrease is believed to have bottomed out and may actually increase slightly with Bay Photo Lab taking over the vacant Seagate buildings.

Expenses over this period of time have increased an average of 2.4% per year. The increase in salary and benefits is mainly in the benefits area because most of the seven employees that operate and manage the treatment plant have been with the City for a long time and are at the top salary step in their job classification. Maintenance and operations varies based on whether major equipment repairs are needed during the year. Contract services under supplies and services has been increasing due to PG&E rate increases. There are also variations in supplies and services due to the timing of unscheduled maintenance and repairs performed on equipment.

As an example of the changes in equipment maintenance, below are the amounts for fiscal years 2008 through 2011. The large amount in 2011 is partly due to a major plumbing repair at the pump station that services Monteville.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Equipment Maintenance	\$138,432	\$111,094	\$88,298	\$150,958

Although expenses in total increased on average 2.4%, we should look at the individual expense line items to develop increases for the projection. For salaries and benefits, over the four years, the increase averaged 4.2% per year. However, the increases slowed down over the last three years to only 3.3%. These later years would appear to be more indicative of the trend for salaries and benefits.

Maintenance and operations had high amounts in 2008 and 2011. Therefore the average increase from 2008 to 2011 was only 0.3%. As shown above, the high amount in 2011 was due to equipment maintenance being at its highest amount (\$150,958). Therefore, a lower projected increase in the future would be logical because the projections from 2011 would start at the highest level of the four years.

For supplies and services the average increase over the four years was 2.7%. However, the amounts start low in 2008 and then alternate with high and low amounts. Fiscal year 2011 ends on a high amount of \$381,156. Here again, timing of certain maintenance plays a factor in the increases and decreases. To continue the projection from the high point in 2011 with a percentage increase from the low point would distort the future projections unreasonably high. Looking at the last three years provides an average increase of only 1.5%.

Four-Year Projections:

Three different scenarios with various rate increases were prepared for consideration. They are presented in Exhibits 2, 3, and 4. All three projections begin with the last completed fiscal year ended June 30, 2011. Revenues and expenses are projected for fiscal years 2013 through 2016. Each expense line item was analyzed above. The projections factor in an increase of 3% per year for salaries and benefits, a 0.5% increase for maintenance and operations, and a 2% increase for supplies and services.

The different scenarios present a 4.5%, 5.0%, and 5.5% annual rate increase over four years. In addition to the revenue increases strictly from a rate increase, the projection also factors in increases from the new residential units being constructed on Bluebonnet Lane and on Scotts Valley Drive. An increase for the former Seagate buildings now owned by Bay Photo Lab has also been included. What hasn't been included in the projections are any increases for the proposed hotel on Scotts Valley Drive, 40 residential units at Polo Ranch, or any new developments in the Town Center such as the former Suburban property that must be sold by the successor agency of the Scotts Valley Redevelopment Agency. Although Lennar Homes has approached City staff stating they would like to start grading this summer at the Polo Ranch development, to be conservative, any impact from this development was not included.

Based on the above factors, a 4.5% annual rate increase still ends with a net loss of \$27,590 in fiscal year 2016. A rate increase of 5.0% provides a net income of \$10,905 in fiscal year 2016. Finally, a 5.5% annual rate increase would provide a \$49,952 net income in 2016 per the projection parameters. Any net income in one year is used for future deficits or replacement of equipment and infrastructure.

Scenario 1 is not being considered because the projection still produces a net loss in the fourth year of rate adjustments. The projection under scenario 2 does provide enough revenues to cover costs in the fourth year. Scenario 3 provides even more coverage of expenses. With any of these scenarios, if the economy were to recover faster than anticipated and the rate increase in the fourth year was not necessary, the City could choose to not implement it. This is what happened in the mid 1990's. The last rate increase was July 1, 1995; however, there was one more scheduled increase the following year. Because revenues were sufficient, that final increase was not implemented.

Therefore, based on the above, scenario 2 which includes a 5% increase in rates for each of the following four years beginning July 1, 2012, is being proposed to the property owners and tenants serviced by the Scotts Valley WWTP. With this scenario costs are covered in the fourth year of the projection.

Impact on Rates:

As discussed above, there are separate rates for 1) commercial (includes residential triplex and above), 2) single-family, detached homes, 3) attached units (apartments, duplexes, condominiums, and townhomes), and 4) mobile homes. There is also a low-income rate for all rates except commercial. The low-income rate is 12% below the full rate. There are approximately 170 low-income customers. The commercial rate is a variable rate based on the amount of water used. The City receives water usage amounts from the Scotts Valley Water District. The commercial rate is currently 65 cents per 100 gallons of water usage. All residential rates are a flat rate.

The impacts of the proposed rate increase are shown on Exhibit 5.

EXHIBIT 1
CITY OF SCOTTS VALLEY
WASTEWATER FUND
ACTUAL REVENUES AND EXPENSES

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenue	<u>1,750,667</u>	<u>1,786,907</u>	<u>1,649,206</u>	<u>1,658,676</u>
Salaries & Benefits	816,565	862,667	912,774	920,098
Maintenance Operations	704,220	693,406	646,700	706,425
Supplies & Services	<u>352,139</u>	<u>370,348</u>	<u>342,848</u>	<u>381,156</u>
Total Expenses	<u>1,872,924</u>	<u>1,926,421</u>	<u>1,902,322</u>	<u>2,007,679</u>
Nonoperating Revenue and Transfers In (Out)	<u>357,581</u>	<u>260,171</u>	<u>123,945</u>	<u>120,479</u>
Net Income (Loss)	<u><u>235,324</u></u>	<u><u>120,657</u></u>	<u><u>(129,171)</u></u>	<u><u>(228,524)</u></u>

EXHIBIT 2
CITY OF SCOTTS VALLEY
WASTEWATER FUND
SCENARIO 1: 4.5% ANNUAL RATE INCREASE

	Actual	Projected			
	2011	2013	2014	2015	2016
Operating Revenue	<u>1,658,676</u>	<u>1,738,316</u>	<u>1,836,541</u>	<u>1,934,185</u>	<u>2,021,223</u>
Salaries & Benefits	920,098	947,701	976,132	1,005,416	1,035,578
Maintenance & Operations	706,425	709,957	713,507	717,074	720,660
Supplies & Services	<u>381,156</u>	<u>388,779</u>	<u>396,555</u>	<u>404,486</u>	<u>412,576</u>
Total Expenses	<u>2,007,679</u>	<u>2,046,437</u>	<u>2,086,194</u>	<u>2,126,976</u>	<u>2,168,814</u>
Nonoperating Revenue					
and Transfers In (Out)	<u>120,479</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
Net Income (Loss)	<u>(228,524)</u>	<u>(188,121)</u>	<u>(129,653)</u>	<u>(72,791)</u>	<u>(27,590)</u>

EXHIBIT 3
CITY OF SCOTTS VALLEY
WASTEWATER FUND
SCENARIO 2: 5.0% ANNUAL RATE INCREASE

	Actual	Projected			
	2011	2013	2014	2015	2016
Operating Revenue	<u>1,658,676</u>	<u>1,746,610</u>	<u>1,853,940</u>	<u>1,961,637</u>	<u>2,059,719</u>
Salaries & Benefits	920,098	947,701	976,132	1,005,416	1,035,578
Maintenance & Operations	706,425	709,957	713,507	717,074	720,660
Supplies & Services	<u>381,156</u>	<u>388,779</u>	<u>396,555</u>	<u>404,486</u>	<u>412,576</u>
Total Expenses	<u>2,007,679</u>	<u>2,046,437</u>	<u>2,086,194</u>	<u>2,126,976</u>	<u>2,168,814</u>
Nonoperating Revenue and Transfers In (Out)	<u>120,479</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
Net Income (Loss)	<u>(228,524)</u>	<u>(179,827)</u>	<u>(112,253)</u>	<u>(45,339)</u>	<u>10,905</u>

EXHIBIT 4
CITY OF SCOTTS VALLEY
WASTEWATER FUND
SCENARIO 3: 5.5% ANNUAL RATE INCREASE

	Actual	Projected			
	2011	2013	2014	2015	2016
Operating Revenue	<u>1,658,676</u>	<u>1,754,903</u>	<u>1,871,423</u>	<u>1,989,351</u>	<u>2,098,765</u>
Salaries & Benefits	920,098	947,701	976,132	1,005,416	1,035,578
Maintenance & Operations	706,425	709,957	713,507	717,074	720,660
Supplies & Services	<u>381,156</u>	<u>388,779</u>	<u>396,555</u>	<u>404,486</u>	<u>412,576</u>
Total Expenses	<u>2,007,679</u>	<u>2,046,437</u>	<u>2,086,194</u>	<u>2,126,976</u>	<u>2,168,814</u>
Nonoperating Revenue					
and Transfers In (Out)	<u>120,479</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>
Net Income (Loss)	<u>(228,524)</u>	<u>(171,534)</u>	<u>(94,771)</u>	<u>(17,625)</u>	<u>49,952</u>

EXHIBIT 5
CITY OF SCOTTS VALLEY
PROPOSED WASTEWATER RATE ADJUSTMENTS
2012 – 2016

	<u>Current</u>	<u>07-01-12</u>	<u>07-01-13</u>	<u>07-01-14</u>	<u>07-01-15</u>
% Rate Increase		5%	5%	5%	5%
<u>Fixed Monthly Rate:</u>					
Single-Family, Detached	\$ 25.15	\$ 26.41	\$ 27.73	\$ 29.11	\$ 30.57
Attached Units	\$ 17.61	\$ 18.49	\$ 19.42	\$ 20.39	\$ 21.41
Mobile Homes	\$ 16.78	\$ 17.62	\$ 18.50	\$ 19.42	\$ 20.40
<u>Variable Monthly Rate:</u>					
Commercial (per 100 gallons water used)	\$.65	\$.68	\$.71	\$.75	\$.79
 <u>Fixed Monthly Rate for Low-income Rate Payer:</u>					
Single-Family, Detached	\$ 22.13	\$ 23.24	\$ 24.40	\$ 25.62	\$ 26.90
Attached Units	\$ 15.50	\$ 16.28	\$ 17.09	\$ 17.94	\$ 18.84
Mobile Homes	\$ 14.77	\$ 15.51	\$ 16.28	\$ 17.10	\$ 17.95