

**TO THE COUNCIL OF THE
CITY OF LOS ANGELES**

Your

BUDGET AND FINANCE Committee

reports as follows:

BUDGET AND FINANCE COMMITTEE REPORT relative to proposed adjustments to the Sewer Service Charge and other fees supporting the Clean Water Program.

Recommendations for Council action, as initiated by Motion (Parks – Perry), SUBJECT TO THE APPROVAL OF THE MAYOR:

1. INSTRUCT the Bureau of Sanitation to:
 - a. Increase the Sewer Service Charge (SSC) annually for a period of ten years by a 4.5 percent increase beginning as early as January 1, 2012, and 4.5 percent effective July 1 in each of fiscal years 2012-13 and 2013-2014, and 6.5 percent effective July 1 in each of fiscal years 2014-2015 through 2020-21.
 - b. Adjust the low-income surcharge from the current rate of 0.84 percent to 1.64 percent to fully fund the low income subsidy provided to SSC customers, as required by the Clean Water Act.
 - c. Adjust the SSC of public agencies to eliminate exemption of the capital component of the SSC so they are billed on the same basis as all other customers.
 - d. Adjust the Quality Surcharge Fee subject to any changes necessary to conform to the revised SSC rates identified in above recommendation number 1a.
 - e. Modify the Industrial Waste Fees for increased cost recovery, subject to any changes necessary to conform to the revised SSC rates identified in above recommendation number 1a.
 - f. Modify the Septage Fees for full cost recovery, as specified in Table A-4 of the July 29, 2011 City Administrative Officer (CAO) report, attached to the Council file.
 - g. Modify the Sewerage Facilities Charge, as specified in Table A-5 of the July 29, 2011 CAO report.
 - h. Print and distribute notices to all affected customers in compliance with Proposition 218.
 - i. Assume the eligibility verification process for SSC low-income subsidies from the Department of Water and Power.
 - j. Develop and report on a proposed Sewer Connection Loan Program to assist homeowners to finance sewer lateral and septic-tank connections, based on

stakeholder input and discussions with the County Assessor on the feasibility of including these loans on property tax bills similar to the mechanism used for lighting district assessments. Also, evaluate the feasibility of including in this loan program, loans to encourage homeowners to install backflow prevention valves to help prevent future sewage backflows, in an effort to reduce the City's liability.

- k. Implement a requirement that all new single-family construction in the City of Los Angeles be required to have private water submeters.
 - l. Identify, with the assistance of the CAO, 25 vacant Sanitation positions in the Clean Water Program for deletion as part of the 2012-13 budget process. The remaining 197 vacant positions in the Clean Water Program, referenced in the CAO's October 14, 2011 report (attached to the Council file), will continue to be subject to the Managed Hiring Process.
 - m. Expand the use of the hiring hall as a cost saving measure.
 - n. Manage, with the assistance of the CAO, the cash flow of the Clean Water Program and make adjustments, as necessary, to avoid backloading necessary capital infrastructure improvements into the latter years.
 - o. Evaluate, with the assistance of the CAO and Chief Legislative Analyst, strategic options to minimize future rate impacts by increasing revenue and/or reducing costs for the Clean Water program, as included in Appendix F of the July 29, 2011 CAO report.
 - p. Report back in the annual budget with an assessment of the stability of the Clean Water Program.
2. REQUEST the City Attorney to prepare and present ordinances for pertinent fee adjustments, and finalize ordinances for approval after required public hearings have been held.
3. REDUCE a General Fund obligation of \$10 million in SCM expenditures for Northridge earthquake recovery by \$4 million (reflects an offset of prior years related cost adjustments from 2008-09 and 2009-10), thereby immediately reducing the Northridge obligation to \$6 million, and INSTRUCT the CAO to work with the Bureau of Sanitation to eliminate the remaining \$6 million General Fund obligation in SCM expenditures for Northridge earthquake recovery as soon as possible through writeoffs or other similar means.

Fiscal Impact Statement: The CAO reports that the Sewer Construction and Maintenance Fund is a special enterprise fund with no reliance on the General Fund. Proposed rate adjustments for various components of the Clean Water Program, inclusive of the Sewer Service Charge which will increase rates over a ten-year period by 4.5 percent in Fiscal Year (FY) 2011-12 through FY 2013-14, and by 6.5 percent from FY 2014-15 through FY 2020-21, will result in additional revenue of \$1.88 billion.

Community Impact Statement: None submitted.

(Energy and Environment Committee waived consideration of the above matter.)

SUMMARY

At its meeting of October 17, 2011, the Budget and Finance Committee considered several CAO and Bureau of Sanitation (Sanitation) reports, attached to the Council file, relative to proposed adjustments to the Sewer Service Charge and other fees supporting the Clean Water Program (CWP). The CWP serves over four million people in the City of Los Angeles and 29 contract cities, encompassing a service area of approximately 600 square miles. The span of services incorporated in CWP operations include wastewater conveyance and treatment, water reclamation, industrial wastewater management, environmental monitoring, and a capital program to meet the current and future infrastructure needs of the system.

Additionally, the wastewater collection and treatment system is operated and maintained by Sanitation and includes 6,700 miles of sewers, 44 pumping plants, three water reclamation plants and one treatment plant. The cost of operating the City's sewer system is borne by users of the system based on the amount of wastewater discharged into sewers and treated at the City's treatment plants. Funding for the system is provided by the Sewer Construction and Maintenance Fund (SCM). The SCM Fund is an enterprise fund and receives no support from the City's General Fund. The majority of revenues to the SCM Fund are from user fees paid by customers who receive wastewater collection and treatment services. Revenues from the SCM Fund are used to support operations and maintenance costs, debt service and capital costs.

Representatives of Sanitation and CAO presented an overview of their reports to the Budget and Finance Committee and provided background on their respective recommendations for increases to the Sewer Service Charge. During a lengthy Committee discussion, Sanitation and CAO representatives responded to related questions from Committee members. It was noted that the Energy and Environment Committee had also considered this item at multiple hearings. After providing an opportunity for public comment, the Budget and Finance Committee recommended to increase the Sewer Service Charge annually for a period of ten years by a 4.5 percent increase beginning as early as January 1, 2012, and 4.5 percent effective July 1 in each of fiscal years 2012-13 and 2013-2014, and 6.5 percent effective July 1 in each of fiscal years 2014-2015 through 2020-21. The Committee further recommended the additional instructions as reflected in the above recommendations.

This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
PARKS:	YES
CARDENAS:	YES
ENGLANDER:	YES
ROSENDAHL:	YES
KORETZ:	YES

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