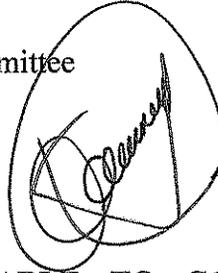


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: October 11, 2013

TO: Honorable Felipe Fuentes, Chair
 Honorable Bob Blumenfield
 Honorable Tom Labonge
 Honorable Jose Huizar
 Honorable Paul Koretz
 Energy and Environment Committee

FROM: Enrique C. Zaldivar, Director
 Bureau of Sanitation



SUBJECT: **COST SAVINGS AVAILABLE TO CONTRACT AGENCIES FOR DISCHARGING THEIR WASTEWATER TO LOS ANGELES' WASTEWATER SYSTEM AND AMALGAMATED SYSTEM SEWERAGE FACILITIES CHARGES, CF#13-1149**

On October 2, 2013, the Energy and Environment Committee of the Los Angeles City Council heard a report from the Bureau of Sanitation relative to adopting rates needed to implement wastewater service agreements between the City and agencies that receive wastewater service from the City by contract. At the hearing, Committee members instructed the Bureau to report back on the magnitude of cost savings available to the contract agencies through discharge of their wastewater into the Los Angeles wastewater system with its economies of scale rather than constructing their own treatment plants. The Bureau's report is attached to this correspondence.

A Committee member also asked if FY 2013-14 rates for the Amalgamated System Sewerage Facilities Charges (ASSFCs) are greater than in the previous year. ASSFCs are one-time charges to the agencies for development inside the agencies and are analogous to Sewerage Facilities Charges for development inside the City. The rates have increased steadily over the past three years and as proposed for FY 2013-14. For example, the ASSFCs for a typical new three-bedroom home were \$1,451 in FY 2010-11, \$1,493 in FY 2011-12, and \$1,577 in FY 2012-13. The charge based on the proposed FY 2013-14 rates is \$1,582. The ASSFC rates are based on the value of the fixed assets in the wastewater system. The value is increased when capital projects are completed and added to the rate base. The value is decreased by depreciation of the assets. The increased rates indicate that the value of completed capital projects has exceeded the depreciation in recent years.

The attached report shows economies of scale for wastewater utilities in California in that the average service charges, which reflect the costs of service, decrease with increased wastewater flow. The contract agencies, except perhaps the largest agencies, therefore benefit from reduced costs because they are part of the Los Angeles system.

cc: City Clerk
 CLA
 CAO

Economies of Scale in Wastewater Service to the Contract Agencies

October 11, 2013

The City of Los Angeles has contracts with 29 agencies located in and around the City whereby it provides wastewater service to the agencies. The federal Clean Water Act requires that Los Angeles charge the contract agencies, because they are part of Los Angeles' regional system, based on the costs of their service, similarly to the internal-City customers. These contract agencies would presumably benefit from costs savings in being able to discharge their wastewater to the Los Angeles wastewater system with its large economies of scale, as opposed to constructing their own treatment plants. On October 2, 2013, at a hearing of the Energy and Environment Committee of the City Council, Committee members instructed the Bureau of Sanitation to report back on the magnitude of these cost savings.

One approach for estimating the cost savings would be to perform an engineering analysis of each agency's wastewater system and to determine the feasibility and cost of constructing and operating the agency's own treatment plant. Alternatively, the engineer could determine the feasibility and cost of pumping and conveying the agency's wastewater to other regional wastewater systems, such as the Los Angeles County Sanitation Districts. These analyses would be costly and very time-consuming. This report instead compares average monthly service charges for single-family residences in various sized wastewater utilities in California. The average charges for utilities with similar wastewater flows as the contract agencies roughly show the relative costs of wastewater service for the agencies if they constructed their own treatment plants rather than use Los Angeles' system.

The following table shows average monthly charges for California wastewater utilities for ranges of wastewater flow. The table also lists those contract agencies that discharge wastewater to Los Angeles within the given flow ranges.

Ranges of Wastewater Flow from California Utilities (million gallons per day)	Statewide Average Monthly Service Charges for Single-family Residences¹	Contract Agencies with Discharges within the Flow Ranges
312	\$32.63	Los Angeles
5 to 20	\$30.06	Burbank, Glendale, Santa Monica
2 to 5	\$36.68	Beverly Hills, County Sanitation District (CSD) 4 (West Hollywood), Culver City
1 to 2	\$38.66	El Segundo, Crescenta Valley Water District, Marina Del Rey, San Fernando
0.2 to 1	\$40.64	CSD 9, Parts of CSD 5 and 16, Parts of Las Virgenes Municipal Water District, Universal City, Veterans Administration
Below 0.2	\$70.98	CSD 27, Parts of La Canada and Triunfo Sanitation District, West Los Angeles Community College, Others

¹Based on data collected by the State Water Resources Control Board (SWRCB) for Fiscal Year 2012-13. The average charges exclude utilities that do not provide both wastewater collection and treatment services and utilities that receive less than seventy percent of their revenues from service charges.

The table shows economies of scale in the wastewater utilities in that the average service charges, which reflect the costs of service, decrease with the wastewater flow. However, within the flow ranges shown in the table, the service charges vary considerably. For example, though the City of Los Angeles has the largest wastewater flow, its monthly service charge of \$32.63 is somewhat higher than the average for all utilities with flows greater than five million gallons per day. Besides flow, a number of factors affect the costs of service and service charges, including the following:

- The degree of wastewater treatment, which reflects regulatory requirements. The type of treatment by the utilities included in the SWRCB survey varies from simple sewage lagoons to tertiary treatment with nutrient removal. Los Angeles provides more costly tertiary treatment and nutrient removal for 22 percent of its wastewater and secondary treatment for the remainder.
- The availability of funds from sources other than service charges, such as property taxes and connection fees. Los Angeles is more dependent on service charges (93 percent) than most large utilities.
- The amount of pollutants that must be removed from the wastewater by the utility.
- The age and condition of the utility's sewers, pumping stations and treatment plants.
- The utility's commitment to provide resources to replace its facilities as they age. By approving a ten-year schedule of rate increases, the Los Angeles City Council showed its commitment to replacing aged facilities. This is increasing service charges in the short run, but will provide a greater cost savings in the long run.
- The degree that regulators and courts impose costly requirements on the utility. Large utilities like Los Angeles are frequently regulated more stringently than small utilities because they provide greater results for the regulators' efforts. For example, Los Angeles is now finishing a ten-year Collection System Settlement Agreement which required greater maintenance and replacements of sewers.

The average service charges in the above table indicate that the agencies, except perhaps for Burbank, Glendale and Santa Monica, benefit from reduced costs because they are part of the Los Angeles system. Burbank has its own treatment plant, while Glendale participates in the Los Angeles/Glendale Water Reclamation Plant with Los Angeles. Even if they wanted to construct their own treatment plants, the contract agencies would likely experience difficulties siting and permitting new plants.