

SEWER SERVICE CHARGE SUMMARY AND OVERVIEW

This report sets forth a sewer service charge approach for the City of Huntington Beach. By implementing the approach, the City can generate revenue required to repair its local sewer collection system, operate and maintain the system, and maintain a fund for replacing system components in the future. According to City staff, the amount needed for fiscal year 2001-02 is \$6.3 million. That amount will increase annually to reflect changes in costs for improving, operating, and maintaining the system.

Darrel Cohoon & Associates (DCA) has developed a sewer charge approach in cooperation with City staff. If implemented, the approach will generate \$6.3 million dollars in its first full year.

The service charge approach is a combination flat-charge and flat rate system. Under the approach, the charges would apply to customers in each of five categories, as shown in Table 1 on the following page.

The methodology is summarized in this Executive Summary and described in greater detail in Section II. DCA calculated the actual rates and charges using an Excel spreadsheet model. A printout of the model is presented in Appendix E. DCA has submitted a diskette containing the model to the City along with this report.

BASIC SEWER CHARGE CALCULATION METHODOLOGY

The basic approach for calculating charges is shown below:

- Estimate the amount of annual discharge to the sewer system for each customer category.
- Calculate each category's percentage share of total annual discharge to the sewer system.
- Multiply the City's total annual sewer revenue requirement (\$6.3 million for 2001-02) by each category's percentage share of sewer discharge to determine the dollar amount allocable to each category.
- Divide the dollar amount allocable to each category by the number of billing units in the category:
 - Housing units for Residential and Apartment
 - Equivalent dwelling units (EDU's) for Regular Commercial/Industrial
 - Hundred cubic feet (HCF) of water consumption, adjusted for non-sewer uses, for High-Consumption Commercial/Industrial
 - Average daily attendance (ADA) for public schools.

Table 1
Summary of Sewer Charge Customer Categories,
Charge Types, and Amounts

Customer Category	Charge Type	Monthly Charge
Residential – Mostly single-family, but also includes townhouses with individual meters.	Flat charge – Same amount for all customers in category, calculated and billed bimonthly via the Utility Billing System.	\$5.30 per unit per month
Apartment – All apartments and mobile homes, and all townhouses served by common water meters.	Flat charge – Same amount for all customers in category, calculated and billed bimonthly via the Utility Billing System.	\$4.40 per unit per month
Regular Commercial/Industrial – Most businesses, including private schools.	Flat rate – Same dollar amount per Equivalent Dwelling Unit (EDU), calculated and billed bimonthly via the Utility Billing System. (EDU's are based on meter size or number of tenant units, whichever is higher. See Section II.)	\$6.15 per EDU per month
High-Consumption Commercial/Industrial – Businesses with high water consumption relative to their meter size.	Flat rate – Same amount per hundred cubic feet (HCF) of estimated sewer discharge. Hand-calculated and billed by Public Works Department once a year.	\$0.60 per HCF per year
Public Schools – All public K-8 and high school districts with schools in the City.	Flat rate – Flat rate per student per year with a different rate per student for K-8 and for high schools. Hand-calculated and billed by Public Works Department once a year.	<u>High School:</u> \$1.69 per ADA per year. <u>K-8:</u> \$1.09 per ADA per year

WHY THE PROPOSED APPROACH WAS SELECTED

During 2000, the City considered a sewer charge approach that would have based nearly all individual customers' charges on their metered water consumption. Under that approach each customer's sewer charges would be based on their actual, individual water use, less an allowance for landscape irrigation and other non-tributary-to-sewer uses (e.g., water used in products or evaporated through boilers and cooling towers).

Unfortunately, it is not feasible for Huntington Beach to develop and implement an automated, metered-water approach at this time. Doing so would require a significant amount of re-programming of the existing Utility Billing System. That system is to be replaced as part of a major automated systems development project that is now under way. Re-programming the existing Utility Billing System would be time-consuming, expensive, and highly disruptive to the major automated system-development project. Then, once re-programmed at considerable expense, the existing Utility Billing System would be discarded and replaced with an entirely new system within a short time.

Adopting the recommended system will allow the City to implement a sewer charge within a few months while avoiding the expense and disruption associated with re-programming the Utility Billing System.

The proposed approach is fair and equitable. It allocates proportionate shares of the total citywide revenue required among customer categories based on their shares of total discharge to the sewer system. It also compares favorably in terms of fairness among individual customers to the approaches used by other cities in the Orange County Sanitation District service area. Charges for residential-type customers in other cities within the OCSD service area are summarized in Table 2. Appendix A presents a summary of charges for all customer categories, including commercial and industrial, within the service area, as compiled by the OCSD.

The selected approach allocates costs fairly, is reasonable in terms of administrative burden on City staff, and takes the capabilities of the City's automated systems into account. In terms of administrative difficulty, the proposed approach is somewhat complicated, incorporating four basically different methodologies to calculate charges for five separate customer categories. It also requires individual calculation of some customers' bills. It is likely to require several hundred labor-hours a year to respond to appeals, update the model, and make other adjustments to the sewer-charge billing process. Overall, we believe the complexity of the approach is appropriate because it is fair to customers.

CHARGES APPLY ONLY TO THOSE CONNECTED TO THE SEWER SYSTEM

Under the proposed approach, the service charges for all categories of customers are based on their estimated discharge to the City's sewer system. The sewer charges apply only to those customers with connections to the sewer system. Since the City's records do not show which, if any, water customers are without sewer connections; the City should initially bill all water customers for sewer use. Each bill should include a notice stating the customer's right to appeal

the charge and outlining the procedure for doing so. Upon appeal, the City should waive the charges for any customer who provides evidence that his/her water service is not tributary to the sewer system. This exclusion is not only fair, but is also necessary in order for the charge to be regarded as a user charge rather than a charge incidental to property ownership. Charges incidental to owning property are subject to Proposition 218 and to a public vote.

TABLE 2. Comparison of Residential Sewer Charges in OCSD Service Area *

<u>Agency</u>	Typical Monthly Charge Assuming <u>1,800 sq. ft. Dwelling or 15 HCF Water Use</u>	<u>Charge Calculation Methodology</u>
Anaheim	\$.94	Flat charge.
Brea	\$1.52	Flat charge, varies by size of residential unit.
Buena Park	\$1.06	Flat rate: 6% of total water bill (capacity as well as consumption charge).
Costa Mesa Sanitary District	Single-family \$1.92	Flat charge.
	Multi-family \$1.48	
Cypress	\$.50	Flat charge.
Fountain Valley	No sewer charge	
Fullerton	\$4.13	Flat rate: 25% of water bill (capacity as well as consumption).
Garden Grove	\$5.44	Pre-Prop 13 GG Sanitary District Rate of \$2.12 (average residential unit) + Flat charge of \$3.32 per residential unit.
Huntington Beach	Residential \$5.96	Flat Charge
(Proposed)	Apartment \$4.95	
Irvine Ranch Water District	\$5.90	Flat charge. Amount varies by consumption blocks.
La Habra	\$1.98	Flat rate: 10% of water bill.
La Palma	\$3.00	Flat rate: \$.20 per 100 HCF.
Los Alamitos	No sewer charge	
Midway City	\$1.25	Flat charge.

Sanitary District
(includes
Westminster)

Newport Beach

\$7.35 Flat rate: \$.25 per HCF.

Orange

Single-family **\$4.42** Flat charge. Also covers storm drains.

Multi-family **\$3.36**

Placentia

No sewer charge

Santa Ana

No sewer charge

Seal Beach

\$10.51 Flat rate of 22% of total water bill + capital fund fee combined = \$4.68, plus flat charge for sewer master plan of \$5.83. Water rate, capital fund fee, and master plan fee are all based on meter size.

Tustin

No sewer charge

Villa Park

No sewer charge

Yorba Linda Water
District

\$2.00 Flat charge.

CUSTOMER CATEGORIES AND APPLICABILITY OF CHARGES

The proposed sewer charge categories are based on the categories in the City's Utility Billing System. The make-up of sewer charge customer categories in relationship to the Utility Billing system categories is shown in Table 3 below:

Table 3
Makeup of Sewer Charge Categories Relative to Utility Billing System

Utility Billing System Categories	Proposed Sewer Service Charge Categories
Residential	Residential equals same customers as in Utility Billing System's Residential category
Apartment	Apartment equals same customers as in Utility Billing System's Apartment category

Commercial	Regular Commercial/Industrial is made up of some customers from Utility Billing System's Commercial category and some from Utility Billing System's Industrial category
Industrial	High Consumption Commercial/Industrial is made up of some customers from Utility Billing System's Commercial category and some from Utility Billing System's Industrial category Public Schools are extracted from Utility Billing System's Commercial category.
Irrigation	Irrigation-only accounts are not charged for sewer use.
Municipal	Municipal-only accounts are not charged for sewer use.

Irrigation accounts are not charged for sewer use because water that flows through irrigation meters is not tributary to the sewer system. The Utility Billing System's Municipal category includes only meters used by the City for municipal purposes. These meters are exempt from the sewer charge because payment of the charges would only result in transferring money from one fund or account to another rather than raising additional revenue for the City.

THE IMPORTANCE OF AN APPEALS PROCESS

While the service charge methodology is fair and equitable, there are likely to be many cases in which adjustments will need to be made to individual accounts. The City should have an appeals process and a set of adjustment guidelines for responding to any appeals. Some of the types of situation requiring adjustment will likely be:

- Residential and commercial customers that use an exceptionally large percentage of their water for irrigation. Nurseries, for example, typically use most of their water consumption for this purpose.
- Businesses that use water in boilers, evaporative coolers, as an ingredient in products, or in clothes washers and dryers. A significant percentage of water consumed by laundromats, for example, is evaporated through dryers
- Apartments and commercial properties with vacancies during an entire billing period.

The appeals process should also be used to exempt customers who are not connected to the sewer system.