



Staff Report

File #: REPORT 22-0400, Version: 1

Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of July 12, 2022

PUBLIC HEARING ON THE ANNUAL LEVY FOR THE SEWER CHARGE AND ENGINEER'S REPORT (Public Works Director Joe SanClemente)

Recommended Action:

Staff recommends City Council:

1. Conduct a public hearing in connection with the annual levy for the sewer charge;
2. If there is no majority protest, make a finding that there is no majority protest by parcel owners within the City of Hermosa Beach;
3. Adopt a resolution, including an Engineer's Report, approving the new rates and placing the sewer service charge on the annual County of Los Angeles Tax Roll (**Attachment 1**); and
4. Introduce on first reading an Ordinance of the City Council of the City of Hermosa Beach amending sections 13.12.010 of the Hermosa Beach Municipal Code (HBMC) relating to annual sewer service charge and reflecting the rate (**Attachment 2**).

Executive Summary:

On June 23, 2015, Council adopted an annual sewer service charge to fund maintenance, operations, servicing, and improvements to the City's sewer collection system. The sewer service charge has been collected since Fiscal Year 2015-16, with an annual Consumer Price Index (CPI) increase capped at two percent for a five-year term. In Fiscal Year 2021-22 the sewer service charge remained the same as the previous year at \$126.60 due to the expiration of the five-year term for CPI increases. The charge was codified in the Hermosa Beach Municipal Code (HBMC).

To reestablish the CPI increase for the sewer service charge for Fiscal Year 2022-23 and future years, City Council must: hold a new majority protest public hearing; make a finding that there is no majority protest by parcel owners within the City of Hermosa Beach; adopt a resolution (**Attachment 1**) including the Engineer's Report; and adopt an ordinance (**Attachment 2**) amending Sections 13.12.010 of the Hermosa Beach Municipal Code relating to rate of annual sewer service charge.

Background:

At its June 23, 2015 meeting, City Council adopted the first annual sewer service charge to fund maintenance, operations, servicing, and improvements to the City's sewer collection system. The sewer service charge for each parcel is based on the direct cost of providing maintenance, operation,

servicing, and improvements to the sewer collections system and by water consumption for non-residential users. The fees, collected from parcels, fund sewer services provided by the City.

At its July 14, 2015 meeting, City Council waived full reading and adopted by title Ordinance No. 15-1355 (**Attachment 3**), adding a new chapter 13.12 to the Hermosa Beach Municipal Code regarding sewer service charges. As stated in Ordinance 15-1335, the City could increase the sewer service charge each year by the annual increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers in the Los Angeles-Riverside-Orange County, CA area (CPI-W), not to exceed two percent per year for up to five years.

As per the originating sewer charge resolution and state law, annual increases can only be authorized for a five-year period. A new Proposition 218 hearing is required to increase the charge after the initial five-year period. In Fiscal Year 2021-22, the City was outside of the initial five-year window and therefore did not adjust the sewer service charge by the annual CPI increase. Ordinance 15-1335 states that to continue to increase the sewer service charge, the City must conduct another majority protest hearing to authorize inflation increases for an additional period not to exceed five years.

At its April 26, 2022 meeting, City Council adopted a resolution to conduct a majority protest hearing on July 12, 2022. Notice of the public hearing was published in the Easy Reader on May 4, 2022 and mailed out with a protest form to residents of the City (**Attachment 4**).

Past Council Actions

Meeting Date	Description
June 23, 2015	City Council approved a resolution adopting the first annual sewer service charge to fund maintenance, operations, servicing, and improvements to the City's sewer collection system.
July 14, 2015	City Council waived full reading and adopt by title Ordinance No. 15-1355
April 26, 2022	City Council adopted a resolution accepting the Preliminary Engineer's Report and setting the majority protest public hearing for July 12, 2022.

Analysis:

For Fiscal Year 2022-23, staff recommends adding a five percent CPI increase to the sewer fee as suggested and justified by the Engineer's Report and capping it at a five percent annual increase through July 1, 2026. The proposed CPI value is based on the percentage change in CPI since the sewer fee inception. By having capped the CPI at two percent, the City has lost the revenue

necessary to maintain the City’s sewer system and complete necessary repairs as recommended in the Sewer Master Plan.

Table 1 below shows the annual increases in CPI and the actual increase added to the City sewer fee since its inception.

TABLE 1. Actual Sewer Fee Increase versus Consumer Price Index

CONSUMER PRICE INDEX Los Angeles Urban Wage Earners and Clerical Workers (CPI-W)		
Year Ending	Percent Change	Actual Increase
March 2016	1.7	1.7
February 2017	2.5	2
January 2018	3.7	2
January 2019	2.9	2
January 2020	3.5	2
January 2021	1.1	0
January 2022	7.6	

Single-family residential units are charged at 1.0 equivalent service units (ESU) per parcel. Multi-family residential units are charged at 0.6 ESU per parcel and condominiums at 1.0 ESU per parcel, as they are similar to single-family residents in use. Vacant parcels of any use are charged 0.5 ESU. For FY 2022-2023 the proposed charge, with a proposed five percent CPI increase, is \$132.93 per 1.0 ESU.

Table 2 below compares the resulting sewer service charge rates for residential parcels between FY 2021-22 and FY 2022-23, and the net increase.

Table 2. Residential Parcel Sewer Charges

Land Use	2021-22 Annual Charge (per unit)	2022-23 Annual Charge (per unit)	Amount of Annual Increase
Single Family	\$126.60	\$132.93	\$6.33
Condominiums	\$126.60	\$132.93	\$6.33
Multi Family (Charge is per unit)	\$75.96	\$79.76	\$3.80
Vacant Parcels	\$63.30	\$66.47	\$3.17

A summary of ESUs for residential land-uses can be found on page 10 of the Engineer’s Report (**Attachment 5**). For non-residential parcels, the ESU is a function of whether they used more or less water than last year. The ESU for various non-residential land uses is calculated per the following

equation:

$$\text{ESU} = \text{commercial water consumption gallons per day (GPD)} / 260 \text{ GPD per single family residential unit (SFRU)}$$

The Engineer's Report contains detailed information about the annual charge and the charge to be applied to the parcels. Also included in the report is information about the use of revenue, annual increases, and Proposition 218 considerations. Every parcel in the City is subject to the sewer service charge. Per Section 13.12.050 of the Municipal Code, the City does provide the opportunity for a full annual rebate of the sewer service charge paid per year for the dwelling unit in which the owner resides, provided that the individual meets certain eligibility requirements.

This public hearing provides an opportunity for the City Council to hear and consider all protests to the annual levy and increase of the sewer service charge. In the absence of a majority protest by property owners within the City of Hermosa Beach, City Council may authorize the rate increase and order implementation of City sewer service charge as proposed on the attached Engineer's Report. Similarly, if Council finds that protest is made by the property owners of a majority of separate parcels of property described in the Engineer's Report, then the increase in CPI shall not be adopted.

If these proposed rates are adopted, the new rates would be applied this year. For inflation increases, the City would be required in future years to notify each property owner in writing of the CPI-W increase at least 30 days before the effective date of the adjustment per State law. Another majority protest Proposition 218 hearing will not be required for another five years.

Staff recommends City Council hold a public hearing to: (1) make a finding that there is no majority protest by property owners within the City; (2) adopt the enclosed Resolution, with attached Engineer's Report, and place the annual sewer service charge on the annual County of Los Angeles Tax Roll; and (3) introduce the enclosed Ordinance of the City Council of the City of Hermosa Beach amending sections 13.12.010 of the Hermosa Beach Municipal Code relating to annual sewer service charge.

Update on Sewer Repair Projects

The collected sewer funds are used for the City's routine sewer cleaning, planned repairs and rehabilitation, and emergency repairs. The City collects an average of \$1,100,000 annually from the sewer service charge. Since 2015, the City has spent approximately \$415,000 on average for operations/maintenance-including emergency repairs, contracted services for cleaning and video inspections, and personnel. The remainder of the funds are then primarily used to advance design and construction of the recommendations outlined in the Sewer Master Plan.

In FY 2021-22, the City completed Phase 1 of Capital Improvement Program (CIP) Project 421 (sewer lining & point repairs) at an estimated cost of \$478,535. In FY 2022-23, the City will complete Phase 2, which will include 0.8 miles of sewer repair and other point repairs at an estimated cost of

approximately \$2.5 million and will bring completion up to approximately 39 percent of the recommended improvements per the 2017 Sewer Master Plan.

General Plan Consistency:

This report and associated recommendation have been evaluated for their consistency with the City's General Plan. Relevant Policies are listed below:

Infrastructure Element

Goal 4. The sewer system infrastructure is modernized and resilient.

Policies:

- **4.1 Sewer system master plan.** Ensure that the Sanitary Sewer Master Plan contains an effective and proactive maintenance program that reduces future operation costs.
- **4.3 Service fees.** Ensure that allocation of the Sewer Service Charge is efficient and transparent to the public.

Fiscal Impact:

The FY 2022-2023 anticipated total revenue from the sewer service charge is approximately \$1,102,000. The CPI increase of 5 percent for 2022-23 would generate approximately \$55,100 in additional revenue.

Attachments:

1. Draft Resolution
2. Draft Ordinance
3. Ordinance No. 15-1355
4. Public Notice and Protest
5. Engineer's Report
6. Link to June 23, 2015 Staff Report
7. Link to July 14, 2015 Staff Report
8. Link to April 26, 2022 Staff Report
9. Link to Municipal Code Chapter 13.12.050 Rebate

Respectfully Submitted by: Andrew Nguyen, Associate Engineer

Concur: Lucho Rodriguez, Deputy City Engineer

Concur: Joe SanClemente, Public Works Director

Noted for Fiscal Impact: Viki Copeland, Finance Director

Legal Review: Mike Jenkins, City Attorney

Approved: Suja Lowenthal, City Manager