

REQUEST FOR ACTION

Department Head

Phil Kern,
City Administrator

City Council Date

December 15, 2009

Agenda Item

Resolution establishing 2010 sanitary sewer user fees.

ACTION REQUESTED

Staff is recommending a resolution increasing sanitary sewer user fees for 2010.

BACKGROUND

The City operates the sanitary sewer enterprise fund, managing the ongoing community needs for sanitary sewer services. Within the fund, there are three principle functions that require funding – operations of the sanitary sewer system, capital improvements, and payments for debt issuance. To cover the costs of these three functions, the City collects revenues via user fees and hook-up charges.

The sanitary sewer fund, for most of the past decade, has been very healthy. As recent as 2006, the fund had a surplus of over \$5 million. At that time, with revenues far exceeding expenses, the City took action to reduce its user fees. As a result, users saw a significant decrease in their monthly sanitary sewer billings. Not long after this decrease, however, the residential housing market began to stagnate and the City's revenue stream from new sanitary sewer hookups virtually dried up. With this revenue stream projected to bring in close to \$1 million annually, the lack of growth due to market conditions has dramatically impacted the sanitary sewer fund.

In 2008, the shortages in the hook-up charges resulted in a sanitary sewer fund deficit of over \$1 million. In the December 2008, the City took action to repeal the 2006 user rate reduction and return to the previous user rates. This action resulted in a correction that lessened the losses in the sewer fund from 2009. At this time, staff is projecting a loss of approximately \$643,000. While still significant, the change in user rates from 2008 to 2009 resulted in over \$300,000 of additional revenue that could be used to meet debt service obligations. Without the 2008 action to reverse the 2006 rate reductions, staff projected the sanitary sewer fund balance would be gone as soon as 2011.

At this time, with 2009 rates established at \$8.69 per 1000 gallons, the City is projecting a \$643,000 loss in the fund for the current year. Even with a 5% increase to \$9.12 per 1000 gallons in 2010, the deficit would be projected to grow to around \$700,000. The principal reason for this deficit is the continued lack of growth and hook-up charges that originally planned for collection.

The City completed a revised sanitary sewer fund analysis this fall, which will be presented at Tuesday's meeting. The fund analysis projects that with a steady return of growth and no increase in user fees, the current sanitary sewer fund balance of \$2,434,655 could fall below \$1 million as soon as 2014. Without a steady return of growth (50 new units in 2010, 60 new units in 2011, etc.), the fund balance could reach below \$1 million (or lower) much sooner than 2014. Without any growth or change in user fees, the fund could reach \$0 by 2013.

The sewer fund analysis proposes several options for consideration, if the City Council judges its necessary to look at an increase in the sanitary sewer user rate. The underlying recommendation is to establish a base fee of \$8 for all users, no matter how much water or sanitary sewer services are consumed. The study of other communities that was conducted during the analysis process identified Delano as one of the only communities

without a base fee. The equity argument supporting a base fee is that there are certain expenses of the fund that don't change based on consumption, that there are certain expenses mandatory simply to provide the service. Additionally, the analysis provides a projection of future revenues and fund balances with additional increases in the user rate of \$1.00 and \$2.50 per 1000 gallons respectively.

Staff has prepared a resolution (attached) that reflects the establishment of an \$8 base fee, along with a \$1.00 user fee increase. This results in a 2010 user rate of \$10.12 per 1000 gallons, up from the initially planned rate of \$9.12 per 1000 gallons (representing a 5% increase of the \$8.69 2009 rate).

ATTACHMENTS

- Resolution
- 2009 Sanitary Sewer Fund Analysis