



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: December 1, 2009
To: Honorable Mayor & City Council
From: Shana Epstein, Environmental Utilities Manager
 John Garcia, Solid Waste Manager
Subject: Stormwater Utility Service and Rates
Attachments: None

A handwritten signature in black ink, appearing to be "Shana Epstein", is written over the "From:" line of the staff report.

INTRODUCTION

The purpose of this memorandum is to describe the overall fiscal condition of the Stormwater Enterprise Fund (the Fund) and present options for cost savings and service ramifications. This memorandum does not fully address the pending or future regulations to improve water quality. The Fund has not had a rate increase since 1996. The Fund's current revenues for FY 2009/10 are estimated to be \$1,850,700 while its expenses are projected to be \$4,183,566. Expenses exceed revenues by approximately \$2.3 million per year. Since FY 2008/09, the Fund has received contribution from the Solid Waste Enterprise Fund and General Fund in order to offset the net operating deficit. The estimated total contribution for the two fiscal years is approximately \$1.8 million.

DISCUSSION

The Stormwater Utility program includes Stormwater Inspections, Stormwater Maintenance, Stormwater Conservation, and Stormwater Street Sweeping. Stormwater Inspection is responsible for enforcement of the National Pollutant Discharge Elimination System (NPDES) permit requirements. This permit is the backbone for preventing pollutants from entering the storm drain system and infecting the ocean. The program participates in and implements the requirements of the Municipal Separate Storm Sewer System (MS4) permit required by the State Water Resource Control Board – Los Angeles Region.

The personnel funded by Stormwater include:

- 1 Senior Street Sweeper Operator
- 4 Street Sweeper Operators
- 2 Environmental Program Inspectors
- 10 Environmental Maintenance Workers

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Other personnel who are partially funded through Stormwater equal 1.75 full-time equivalents (FTE).

Stormwater Maintenance is a daily operation that cleans and collects trash and debris from the sidewalks and public right-of-ways, addresses graffiti and pressure washes the sidewalks in the business districts; monitors and cleans the catch basins that are the entry points to storm drains; daily street receptacle collection; and monthly sidewalk steam cleaning.

Stormwater Conservation produces brochures to inform the community on best management practices to prevent disposal of swimming pool, spa, fountain water, and hazardous water-based solvents into the storm drain system and the proper disposal of liquid waste associated with landscape construction, gardening and pest control. The program also sponsors the annual Earth Day event.

Street Sweeping cleans residential streets weekly and commercial streets daily to prevent pollutants from entering the storm drain system.

Service Level Options

The following chart outlines the existing levels of service as well as three possible options for Council consideration.

Service Level Chart						
Scenario	Street Sweeping Residential/Commercial		Pressure Washing	Street Receptacles	Total FTE's	Cost of Service
Existing	1 x per week	7 x per week	12 x per year	Daily	18.75	\$4.2 million
1	1 x per week	4 x per week	12 x per year	6 x per week	13.75	\$3.6 million
2	2 x per month	2 x per week	6 x per year	3 x per week	8.75	\$3.2 million
3	1 x per month	1 x per week	3 x per year	7 x per week Subsidized by GF	5.75	\$2.9 million

FTE (Full-time Equivalent)
GF (General Fund)

The service impacts of the following scenarios were tested through a pilot study conducted during August of 2009. During this period the Beverly Hills Chamber of Commerce gathered constituent feedback of concerns and complaints, receiving seven signatures for the 200 block of South Beverly. Additionally seven total calls were received for the month of August for stormwater related issues. During August of 2008, the Department received twelve total calls for stormwater-related issues throughout the City. Staff will present visual images of the results of the pilot change in service levels at the City Council meeting.

Scenario 1

If Scenario 1 were adopted, the service impacts to the residential and commercial community would change by the frequency of street sweeping and environmental maintenance services. The Fund would have a personnel reduction of five (5) positions, reduce commercial street sweeping services by 43%, and reduce street receptacle collection by 14%. The savings are estimated at approximately \$550,000 per year. Staff

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incorporated the Public Works Commission recommendation of adding demand based service for areas of high vehicular and pedestrian volume and seasonal requirements. The services impacted in this scenario would be commercial street sweeping and street receptacle collection. These services would be evaluated and the frequencies would change depending on the demand. All other services would remain unchanged with current schedules.

Scenario 2

This option is a demand-based option where the level of service will vary subject to the volume of foot and vehicular traffic or seasonal impacts in a given area even though the current rate assessed is a flat fee with the only differentiation between residential and commercial. The service level chart reflects the minimum level of service and any demand service will be in addition to this minimum. If Scenario 2 were adopted, the service impacts to the residential and commercial community would change by the frequency of street sweeping and environmental maintenance services. The Fund would have a personnel reduction of ten (10) positions, reduce residential street sweeping services by 50%, reduce commercial street sweeping services by 71%, reduce environmental sidewalk pressure washing by 50%, and reduce street receptacle collection by 57%. The savings are estimated at approximately \$1,019,000 per year.

Scenario 3

In Scenario 3, the Fund's operations would be driven by the existing annual revenue, still resulting in a shortfall of \$1 million – after realized savings of \$1.3 million. Staff does not consider this option to be practical. If Scenario 3 were adopted, the service impacts to the residential and commercial community would change by the frequency of street sweeping and environmental maintenance services. The Fund would have a personnel reduction of thirteen (13) positions, reduce residential street sweeping services by 77%, reduce commercial street sweeping services by 86%, reduce environmental sidewalk pressure washing by 75%, and move street receptacle collection to the General Fund. Moving street receptacles to the GF would cost approximately \$52,000 per year.

FISCAL IMPACT

Currently the Fund operates at a net loss, and unless a financing alternative is embraced, this situation will continue into the future. This fiscal year's loan by the Solid Waste Fund and the General Fund is sufficient to retain the Stormwater Fund in the black through June 30, 2010. In the absence of such assistance the Fund would exhaust its remaining reserves and be insolvent well before June 30, 2010. Revenues have been relatively unchanged since 1996 while O&M expenses, not to mention capital investment requirements, have steadily inched their way upward throughout the years. The stormwater rates were never increased in the aftermath of the passing of Proposition 218, the constitutional amendment that requires a vote to increase this rate.

Proposition 218 Summary

In November 1996, California voters passed Proposition 218. This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent. Proposition 218 requires voter approval prior to imposition or increase of general taxes, assessments, and certain user fees. In general, the intent of Proposition 218 is to ensure that all taxes

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and most charges on property owners are subject to voter approval. A property related fee is a fee imposed as an “incident of property ownership” (like the storm drain fee) and does not include developer fees or utility rates such as water, wastewater and solid waste. Currently, Proposition 218 does not consider Stormwater as a utility. For years a state constitutional amendment has been pending to address this.

Funding Options

Since rates cannot be increased by an act of the City Council, the following funding options are to be considered:

Continue borrowing from the Solid Waste and/or General Funds

As an enterprise fund, the Stormwater Fund should be self-sufficient. Borrowing from other funds does not, in itself, address the inherent imbalance between revenues and expenses. This option is recommended only as a short-term corrective action until a long-term solution is identified. This solution does not have long term viability since the loan has no chance of being paid back without an eventual fee increase. The Solid Waste Enterprise Fund needs to be ultimately reimbursed.

Decrease services so that expenses equal revenues

Holding expenses equal to revenues would exceed the service ramifications of Scenario 3 and cause a reduction of 55% of current expenses. All other services except street sweeping would have to be virtually abandoned. This option would be problematic on two fronts: 1) a drastic reduction in level of service would be unkindly viewed by the community, and 2) could cause non-compliance with regulatory requirements thus subjecting the City to pecuniary fines and/or legal action. In this limited environment the City would test whether or not the private market could perform services in a more cost – effective manner. Ultimately a Request for Proposal would be issued to determine what services could be “purchased” with a fixed revenue amount of approximately \$1.9 million.

Increase Stormwater fees through a voter approved fee increase

This option would address the Fund’s imbalance. However, it would require that a voter-approved fee increase be successfully passed by a majority of property owners. Passing a stormwater fee increase can be challenging and would require a concerted and careful effort. Staff is currently collecting responses to a proposal from consultants to assess the community’s propensity to support a rate increase and, if so, how much of an adjustment.

The increase to the current stormwater fee (\$17.56 residential bi-monthly; \$143.26 commercial bi-monthly) ranges from covering O&M expenses, basic capital investment, and redevelop reserves for emergencies and new regulatory requirements. Hence, staff projected 25% more revenues than operation expenses. However, as this report is being written, staff does not have sufficient information to determine what financial obligations the City could incur in complying with future regulations as determined by the Los Angeles Regional Water Quality Control Board, which is responsible for establishing regulations regarding stormwater and ocean water quality in the Los Angeles region, such as; Ballona Creek and the Santa Monica Bay. It is likely the 25% in additional

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revenue would be insufficient to address such requirements. Possible dates for a property owner mail ballot election are May 4, 2010 and August 31, 2010.

	Existing Scenario	Scenario 1 Demand Based	Scenario 2	Scenario 3
Current Revenues	\$1,850,700	\$1,850,700	\$1,850,700	\$1,850,700
General Fund and Solid Waste Subsidy	GF: \$297,000 SW: \$660,000	None Anticipated		
Projected Expenses (O&M) by scenario	\$4,183,566	\$3,634,157	\$3,164,615	\$2,883,597
Projected Revenues (125% of O&M)	N/A	\$4,542,696	\$3,955,769	\$3,604,496
Estimated bi-monthly rate (residential/commercial)	\$17.56/143.26	\$39.51/\$322.34	\$34.07/\$277.96	\$30.74/\$250.80

Current Revenue = \$1,850,700

Current Bi-monthly residential and commercial rate is \$17.56 and \$143.26 respectively.

RECOMMENDATION

Staff recommends adoption of Scenario 1 while working towards pursuing a ballot measure as a long-term solution.


 FOR David Gustavson
 Approved By