



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** JUNE 18, 2019

**TO:** CITY COUNCIL / CITY MANAGER

**SUBMITTED BY:** KENNETH A. DOMER, CITY MANAGER

**PREPARED BY:** MEG McWADE, DIRECTOR OF PUBLIC WORKS

**SUBJECT:** PROPOSED REVISION TO THE SANITATION CHARGE  
TO MAINTAIN CURRENT REVENUE LEVEL

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### **SUMMARY**

Adopt Resolution No. 2019-XX (Attachment 1) to reduce the percentage used to calculate the Sanitation Charge (used for street sweeping, storm drain maintenance/improvements, tree trimming, concrete curb/gutter repairs, etc.) for Fiscal Year 2019-20 (FY 2019-20) to maintain current revenue levels rather than increase revenue levels as a consequence of the recently approved water rate increase while a cost of service study is performed to ensure adequate funding for these programs.

### **RECOMMENDATION**

Adopt Resolution No. 2019-XX.

**RESOLUTION NO. 2019-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING REVISED SANITATION CHARGE**

### **PRIORITY POLICY STATEMENT**

This item matches the following Priority Policy Statements:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

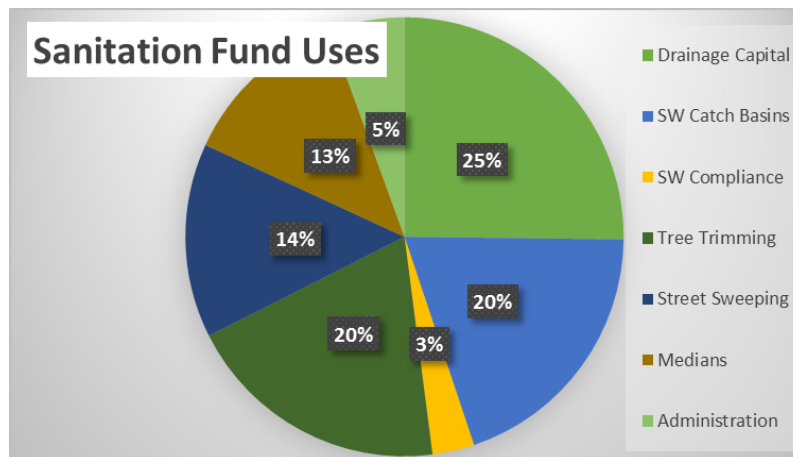
### **FISCAL IMPACT**

Because the design of the current Sanitation Charge is 25% of total water charges, the revenues for the Sanitation Charge would escalate with the recently approved water rates. The water rate study projects that the proposed water rate modifications will result in additional revenues to the Water Fund of approximately \$5.6M in Year 1 (Fiscal Year 2019-20), \$5.4M in Year 2, \$4.5M in Year 3, \$2.2M in Year 4 and \$1.9M in Year 5

(Fiscal Year 2023-24). If the percentage remained 25% of water charges, the Sanitation Fund revenue would also grow.

The proposed resolution will lower the Sanitation Charge percentage for FY 2019-20 in order to maintain the current revenue stream as a matter of sustaining those public services funded. Based on current year projections, the current Sanitation Fund Revenues are anticipated to be approximately \$8 million and the requisite Sanitation Charge percentages are proposed to be lowered from the current 25% of water charges (meter and consumption) to 22% effective July 1, 2019.

The Sanitation Fund revenues provide for various programs (street sweeping, storm water including drainage capital investments, tree trimming, general maintenance, etc.). The City typically allocates the largest share of the Sanitation Charge Revenues to operations, maintenance, and regulatory compliance. The remaining amount is utilized for drainage capital improvements. The use of those funds are shown in the following chart:



Staff will review the Sanitation Charge and related programs as the Fund is not currently generating enough revenue (when calculated at the 25% level using the pre June 4, 2019 increased water rates) to adequately provide for the needs of each of these programs. Additionally, legislative changes and court rulings over time have affected the structure of these types of fees. Similar to the Water Rate process, a cost of service study for these programs would be commissioned with recommendations presented to the Infrastructure and Natural Resources Committee and ultimately brought forward to City Council along with any appropriate public process. While the attached Resolution provides for a modification to the percentage FY 2019-20, the goal is to begin the cost of service study and related process as soon as possible and complete it before the end of FY 2019-20.

## DISCUSSION

In 1969, the City Council established the Sanitation Fund to provide for various maintenance purposes. Currently, the Sanitation Charge is a calculation that uses a percentage multiplied by the water charges. Over time there were numerous revisions to the fee including the following key changes:

- 1.) Resolution 6347 (6/2/1978) - Modified the percentage used to calculate the sanitation charge increasing from 20% to 25% of water charges.
- 2.) Ordinance 2817 (6/16/1992) – The fee was modified to broaden its general purpose and add more maintenance activities. The full description is: *“The maintenance activity accomplished by this program includes sewer cleaning, storm drain cleaning, street sweeping, repairs on these systems, underpass, drainage system and channel maintenance, concrete curb and gutter repairs, tree trimming, sidewalk cleaning, necessary equipment, and other related charges.”\**
- 3.) Resolution 9718 (6/21/2005) established that the City Manager had the authority to determine how the sanitation charges were to be allocated between Operations/Maintenance and Capital Outlay. Prior to this change, each time there was a change in allocations due to the need to fund a large project, a resolution was required.

\*While the Fullerton Code allows for the use of these funds for sewer maintenance, these fees have not been used for these purposes since late 2005 when the Sewer Enterprise Fund was established.

The City recently approved a change in the water rates to fund necessary water operations and capital improvements. There is a desire to ensure that the City does not increase the amount of revenue collected by the Sanitation Charge as a result of the water rate changes. In order to effectuate this, Staff performed a calculation of anticipated increased water rate revenue based on the proposed study. In the current year (FY 2018-19) it is anticipated that current Water Rate Revenues will be approximately \$32 million with corresponding Sanitation Charge revenues (at 25%) of approximately \$8 million. This revenue amount becomes the approximate base amount of Sanitation revenue to be collected during FY 2019-20 when calculated using the reduced percentage. Accordingly, it is recommended that the percentage be lowered to 22% effective July 1, 2019.

In terms of notification, as the Sanitation Charge formula itself is not being modified, rather the percentage used to perform the calculation is being reduced, the City Attorney's Office opined that there was no additional formal noticing required other than posting of the Agenda and Agenda Letter, due to the fact that this action does not increase the current charge and it does not establish a new charge.

Should City Council approve this action, the change would be effective July 1, 2019 concurrent with the water rate changes. Additionally, Staff will be moving forward to perform the appropriate cost of service study related to the Sanitation Fund programs and returning with a recommendation for implementation.

Attachments:

- Attachment 1 – Resolution No. 2019-XX