TO: HONORABLE CITY COUNCIL
ATTENTION: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: PUBLIC WORKS
DATE: MAY 15, 2007 CMR:236:07
SUBJECT: APPROVAL OF A RESOLUTION AMENDING UTILITY RATE SCHEDULE D-1 (STORM AND SURFACE WATER DRAINAGE) REFLECTING A 3.4% RATE INCREASE TO $10.55 PER MONTH PER EQUIVALENT RESIDENTIAL UNIT FOR FISCAL YEAR 2007-08

RECOMMENDATION
Staff recommends that Council approve the attached resolution (Attachment A) amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage), to implement a 3.4% rate increase to $10.55 per month per Equivalent Residential Unit for Fiscal Year 2007-08.

BACKGROUND
On April 26, 2005, a majority of Palo Alto property owners approved a ballot measure authorizing an increase in the monthly Storm Drainage Fee to fund storm drain capital improvements and augmented maintenance. Council certified the results of the ballot proceeding on May 9. The approved ballot measure contained an annual fee escalator clause that permits the Council to consider raising the Storm Drainage Fee each year to account for inflationary cost increases. Specifically, the ballot measure stated that:

“In order to offset the effects of inflation on labor and material costs, the proposed fee increase would be subject to annual increases beyond the initial $10.00 per Equivalent Residential Unit (ERU) rate as of July 1 of each year, starting in 2006. Inflation adjustments would be based on the lesser of the local rate of inflation (based on the change in the Consumer Price Index [CPI] for the San Francisco-Oakland-San Jose CMSA, published by the United States Department of Labor, Bureau of Labor Statistics) or 6 percent. The City Council would have the authority and discretion to implement inflation adjustments on an annual basis as part of the City budget process.”

On May 9, 2005, Council approved a resolution increasing the Storm Drainage rate schedule to $10.00 per month per ERU, effective June 1, 2005. For FY 2006-07, Council approved a rate increase of 2%, increasing the Storm Drainage Fee to $10.20 per month per ERU.
DISCUSSION
Staff has determined from Bureau of Labor Statistics records that the local Consumer Price Index increased by 3.4% between December 2005 and December 2006. Staff recommends that the Storm Drainage Fee be increased by this amount in order to keep fund revenues consistent with general cost increases. In order to enact the Storm Drainage Fee increase, Council must approve the attached resolution amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage). The new rate for the Storm Drainage Fee will be $10.55 per month per ERU. Single-family residential properties are billed a monthly amount based on parcel size, in accordance with the following table:

<table>
<thead>
<tr>
<th>PARCEL SIZE (sq.ft.)</th>
<th>ERU</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 6,000 sq.ft.</td>
<td>0.8 ERU</td>
</tr>
<tr>
<td>6,000-11,000 sq.ft.</td>
<td>1.0 ERU</td>
</tr>
<tr>
<td>&gt; 11,000 sq.ft.</td>
<td>1.4 ERU</td>
</tr>
</tbody>
</table>

Commercial, industrial, institutional, and multi-family residential properties are billed on a monthly basis at a rate of 1.0 ERU for each 2,500 square feet of impervious surface on the parcel.

It should be noted that the recommended rate increase is not sufficient to keep pace with rising construction costs. As indicated in the FY 2007-09 Storm Drainage Fund budget overview, staff and the Storm Drainage Oversight Committee expect that the Fund will likely experience capital project funding shortfalls in the coming years. The shortfalls are a result of the discrepancy between rapidly rising construction costs and the modest Storm Drainage Fee increases allowed by the 2005 ballot measure. Since construction costs have recently been rising at 10-15 percent per year, while local CPI increases have only been 2-4 percent per year, there will likely be insufficient funds to complete the original 12-year Capital Improvement Program outlined in the ballot measure. Staff and the Oversight Committee have developed strategies to maximize the use of available funds, including focusing on completion of the highest priority projects and incrementally reducing the scope of some projects in order to free up funds for other projects.

TIMELINE
The Storm Drainage Fee increase will take effect on July 1, 2007.

ENVIRONMENTAL REVIEW
Adoption of changes to utility rate schedules does not represent a project under the California Environmental Quality Act (CEQA).

ATTACHMENT
Attachment: Resolution Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage)