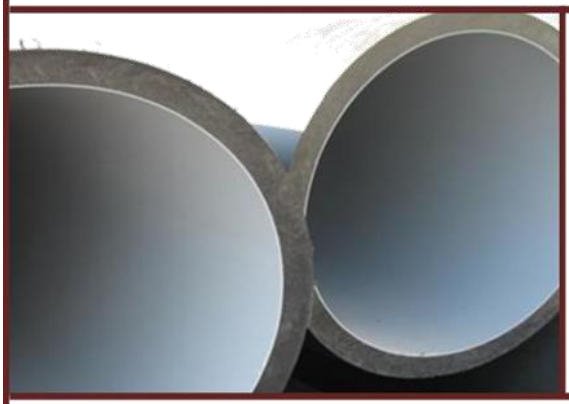

City of Gardena

Sewer Rate Study

July 2016

Prepared By
The City of Gardena
Finance Division

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SECTION 1: Executive Summary

1.1 Background

The City of Gardena's sewer system is almost 70 years old and consists of approximately 88 miles of sewer pipeline, ranging in size from 8 to 12 inches. The City owns and maintains the existing sewer system, which provides service to over 14,000 customers comprised of approximately 60,000 residents, 3,500 businesses, churches, schools, and City parks. Since 1996, Golden State Water has been collecting sewer usage fees on behalf of the City.

The City of Gardena has an ongoing contract with Los Angeles County Sanitation District for sewer collection and treatment.

1.2 Purpose

This Sewer Rate Study addresses the sewer rates charged by the City of Gardena. The current sewer rate structure does not generate adequate revenues to meet operating costs of the sewer system. Given the age of Gardena's sewer system and the increasing cost for annual maintenance to comply with the state's rigorous compliance requirements, there is an urgent need for the City to address sewer deficiencies as recommended by the Sewer Master Study in 2008. Therefore, sewer fee revenues must increase immediately to fund the on-going operating costs and the replacement of aging sewer pipeline infrastructure annually. According to the Sewer Master Study, replacing the impaired sewer pipeline not only will improve the performance of the sewer system, but it will also save significant costs of the on-going reactive maintenance as well. The purpose of this report is to determine the required annual operating and maintenance costs and develop fair and equitable sewer rates.

1.3 Current Sewer Rates

The City's current sewer rate was established by Ordinance No. 1503 on June 11, 1996 and it has not been increased since. Golden State Water currently bill customer on behalf of the City for sewer service fee on a monthly basis. The current sewer rate is $0.25 per water unit in centum cubic feet (ccf) or 748 gallons.

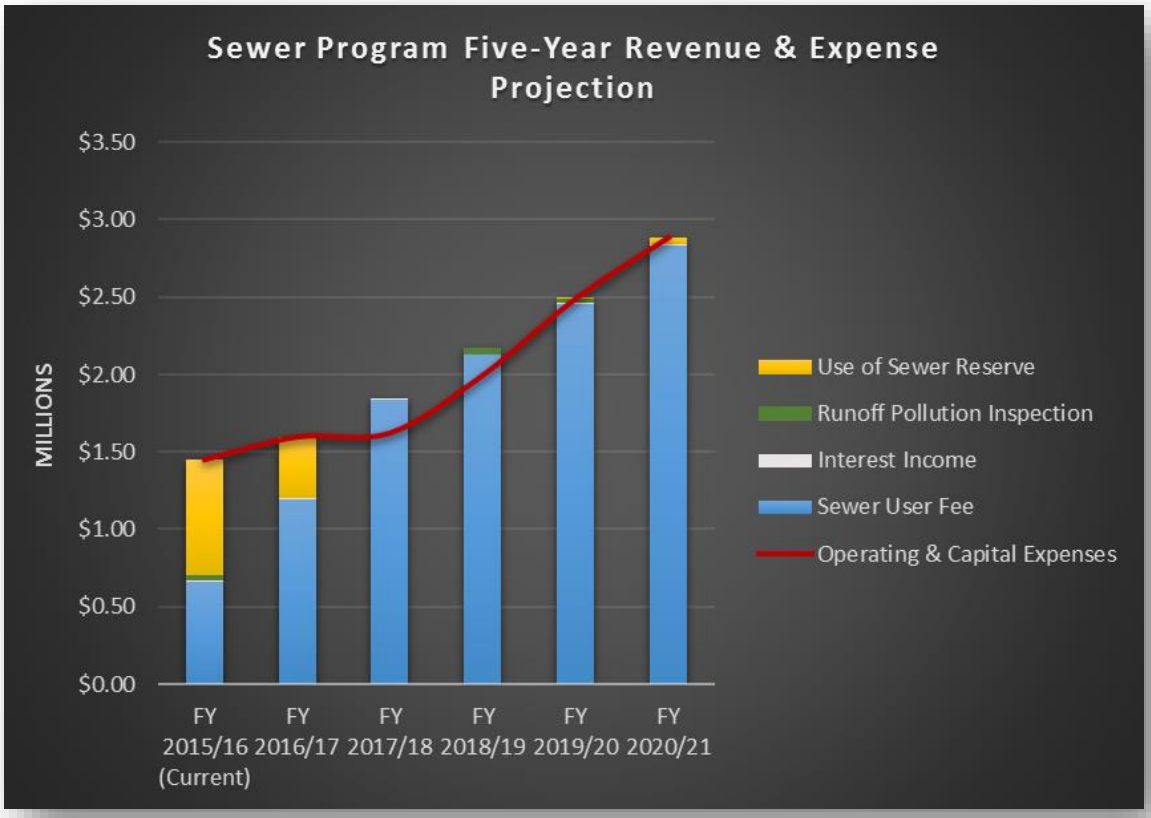
1.4 Five Year Financial Projection

In consultation with the City of Gardena Public Works Department and Quantum Consulting, staff has developed a five-year financial planning projection. Currently, the City's Sewer Fund expends approximately $1 million annually in operating costs. Operating costs are expected to increase by 3% per year up to $1.38 million by FY 2020/21. Operating costs include one additional position, Sewer Lead, in FY 2018/19 to assist with additional workloads from capital projects. In addition, the City plans to implement a $26 million capital project over the next 10 years to replace aging sewer pipeline. However, due to the depleted fund balance, it is not feasible to fund all the projects in that period. Therefore, the City should implement all high priority projects first, at the minimum cost of $500,000 a year. By FY 2020/21, the total cost of sewer program is projected to be around $2.88 million annually.

In FY 2015/16, the sewer fund is estimated to generate $660,000 in revenue, which is not sufficient to fund the current operating costs. Furthermore, the projected sewer fund reserve of $440,000 will be completely depleted during FY 2016/17 and a deficit of $471,400 at year end. Hence, at the current revenue level, the sewer program is not self-sustaining and will require a large supplement from the General Fund to support its annual operating costs.

By moderately increasing the sewer user fee, the City will generate an additional $1 million annually in FY 2017/18 and up to $2 million by FY 2020/21. This additional revenue will fund the annual sewer maintenance as required and allows the implementation of several high priority capital projects as recommended by the Sewer Master Study. The City's five-year sewer program financial projection is presented in the chart below.

(See Table 7 for more details)



1.5 Proposed Sewer Rates

The proposed City sewer rates are provided below. This proposed sewer rate is a combination of fixed and variable structure that offers a fair and equitable rate approach for the City of Gardena's citizens and businesses. It's the City's intent to increase the sewer fee via the Proposition 218 process and adjust the variable rates on July 1st of each year according to the adopted fee schedule.

Table 1: Executive Summary - Proposed Fixed Sewer Rates
City of Gardena
Sewer Rate Study

Water Meter Size	Monthly Fixed Sewer Charge per Water Meter Unit	
	Residential	Non-Residential
SLRP[1]	50% Rebate	
5/8"	$2	$2
3/4"	$3	$3
1"	$4	$4
1 ½"	$5	$5
2"	$6	$6
3"	$7	$7
4"	$8	$8

Table 2: Executive Summary - Proposed Variable Sewer Rates
City of Gardena
Sewer Rate Study

Class	Variable Sewer Rates per Sewer Unit (ccf)					
	Current	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Residential	$0.250	$0.350	$0.4358	$0.5345	$0.6481	$0.7786
Non-Residential	$0.250	$0.500	$0.5965	$0.7075	$0.8350	$0.9815

[1] Sewer Lifeline Rebate Program (SLRP) – Seniors (over 60) or low and fixed income residents who live in single family unit and currently participated in California Alternative Rates for Energy (CARE) program with a utility company will automatically qualify for 50% rebate on Fixed City Sewer charge for the property or unit they reside in.

SECTION 2: Current Sewer Rates

This section provides a description of the City's sewer fee collection procedures, current sewer rates and revenue, and provides a survey comparing the City of Gardena's rate with the rates charged by other comparable agencies.

2.1 Utility Billing Procedures

The City does not bill its citizens or businesses for sewer fee. Sewer fees are being collected by Golden State Water, as authorized by Ordinance No. 1503.

The typical residential customer's utility bill would include a charge for City sewer service and a separate charge for trash. Golden State Water remits payment to the City of Gardena on monthly basis based on customer billing usage. After the City receives payment from GSW, the City's internal financial management system accounts for the sewer and trash revenues separately as required by Proposition 218, the California statute that governs water and sewer utility rates.[2]

2.2 Current Sewer Rates

The City established the current sewer rates on June 11, 1996 via Ordinance No. 1503 and has not raised the rates since. The City's sewer collection charge is billed to customers by Golden State Water, based on water usage unit. One sewer unit is defined as the equivalent of one water unit, 100 cubic feet (ccf) or 748 gallons. The current sewer rate does not distinguish between the different type of customer or the number of dwelling unit. A description of the sewer unit calculation and customer type is provided in Table 3.

Table 3: Current Sewer Rates
City of Gardena
Sewer Rate Study

Customer Type	Sewer Unit Calculation	Current Sewer Rates ($/sewer unit)
City of Gardena Customers		
Residential	Per ccf of water	$0.25
Non-Residential	Per ccf of water	$0.25

[2] Proposition 218 mandates that sewer rates can only be used to fund the cost of providing sewer service. Sewer rate revenue cannot fund other services; such as storm drain service.

2.3 Customer Billing Units and Current Rate Revenue

Table 4 below provides the average number of accounts, the monthly average usage, and the FY 2015/16 estimated sewer user fee revenue. Golden State Water collects sewer charges from about 14,000 accounts, of which about 10,700 accounts are residential. As described above, the current sewer rate does not distinguish between single unit and multi-units' property.

For FY 2015/16, the City expects to receive about $660,000 in net sewer fee revenue. About 40% of the sewer fee revenue is paid by Gardena residents and about 60% is paid by businesses and public institutional customers.

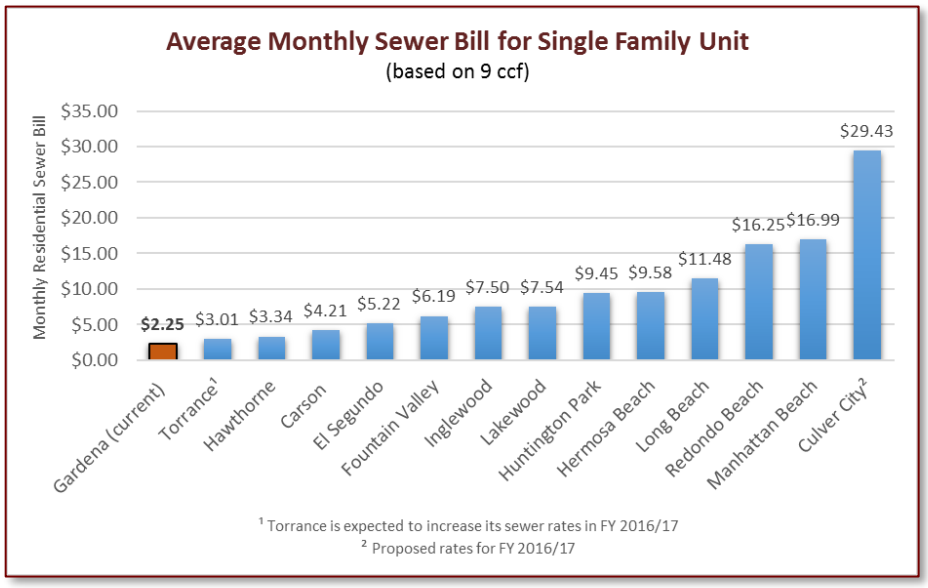
Table 4: FY 2015/16 Estimated Sewer System Billing Units and Revenue
City of Gardena
Sewer Rate Study

Customer Type	Number of Accounts	Average Monthly Usage	Current Sewer Rates	FY 2015/16 Estimated Revenue	% of Total Revenue
Residential Customers	10,691	89,968 ccf	$0.25	$269,904	39.90%
Non-Residential Customers	3,551	135,500 ccf	$0.25	$406,500	60.10%
Less Billing Charge & Allowance for Uncollectible				($16,000)	
Total	**14,241**	**225,468 ccf**	**$0.25**	**$660,404**	**100.00%**

Source: Golden State Water – 2015 Monthly Average

2.4 Typical Bills Survey

Staff has conducted a bills survey comparing the typical monthly single family unit residential sewer bill in the City of Gardena with the typical bills of other comparable agencies. While some agencies in South Bay charge a flat rate for sewer service, most agencies in the region charge per unit (in ccf) based on water usage. The figure below shows the typical current sewer fee bills from the City of Gardena and other agencies. Agencies that charge a combined fee for collection and treatment service are excluded from the bill survey. The City of Gardena's sewer fee charge is the lowest in the region and is much lower than Culver City.



SECTION 3: Cash Flow Projection

3.1 Revenues

As described in the previous section, the City expects to collect $660,000 in sewer user fee revenue in FY 2015/16. In addition, the sewer fund collects a small amount of interest earnings from the current fund balance. For FY 2016/17 to FY 2020/21, interest income is estimated at 1% of the beginning fund balance each year. However, the sewer cash balance is expected to be depleted during FY 2016/17 and will require General Fund supplement of $471,400, in order to meet costs, rates must increase.

3.2 Expenses

A typical sewer program's expenses consist of operating and capital expenses. For FY 2015/16, the sewer program operating costs should be approximately $948,000 (Table 7) including staffing costs, maintenance, equipment, administration, and overhead. These expenses are ongoing costs and are projected to increase by 3% annually due to inflation. The City Council has also approved a sewer rehabilitation project of $900,000 and this project was budgeted for FY 2015/16. However, due to the financial constraints, this project has been delayed and re-budgeted for FY 2016/17. As for major equipment acquisition, the City plans to purchase a Gap Vax Sewer Truck for $450,000, which will be a one-time expense in FY 2019/20.

To provide for the long-term upkeep of the sewer system, the City plans to implement the 10-year capital projects as proposed by 2008 Sewer Master Study. To fully fund the 10-year capital projects, the City will need to invest $2.6 million per year for the next 10 years[3]. Due to funding limitation, staff has reviewed, identified, and selected several high priority projects to implement for the next five years from the list of the updated capital projects in Table 5. Staff recommends that the City should start replacing sewer pipeline over the next five years. The City will initiate work on this project in FY 2018/19 right after the completion of the current sewer rehabilitation project. Thereafter, the City expects to continue to replace the pipeline based on fund availability. At a minimum, the City must invest on sewer pipeline replacement of $500,000 per year to proactively upgrade the system so that the City can continue to provide high level of service, see Table 5 below.

Table 5: Capital Improvement Program
City of Gardena
Sewer Rate Study

High Priority Capital Projects	Actual FY2015/16	Five Year Projection					**Five Year Total**
		FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	
Sewer Rehabilitation Project (Council has already approved)		450,000	450,000				900,000
158th & La Salle west 152 ft 159th & Vermont south 327 ft Normandie & Redondo west 905 ft				200,000	200,000	531,000	931,000
Western & 145th east 1,345 ft North on Denker for 800 ft						469,000	469,000
Sewer Pipe Lining				500,000	500,000	500,000	1,500,000
Total Capital Projects	**$0**	**$450,000**	**$450,000**	**$700,000**	**$700,000**	**$1,500,000**	**$3,800,000**

Table 6: Updated 10-Year Capital Improvement Program (June 2016)
City of Gardena
Sewer Rate Study

Project Description	Length Pipe Exst/Repl	Pipe Exist / Replacement (in)	Estimated Cost
1. 158th and La Salle, to west 152 ft 159th & Vermont to south 327 ft Normandie & Redondo Beach to west 905 ft	1,384	8, 10 / 10, 12	$931,000
2. Western & 145th, to east 1,345 ft North on Denker for 800 ft	2,145	8 / 12	$1,658,000
3. Normandie & Marine east to Normandie and Budlong then north to 149th	1,667	8 / 10, 18	$1,242,000
4. West of 135th & New Hampshire then north on Vermont	1,865	8 / 10, 12	$1,245,000
5. Normandie & Rosecrans to Rosecrans & Vermont	2,567	8, 10 / 12, 18	$1,970,000
6. Rosecrans & Budlong to Budlong & 140th and from Rosecrans & Vermont north 806 ft	1,559	8 / 10, 18	$1,140,000
7. Redondo Beach & Atkinson north 888 ft Redondo Beach & Ardath north 558 ft Redondo Beach & Ardath east 2,135 ft Alley south of 157th & alley east of Spinning south 133 ft, and Manhattan Beach & alley east of Spinning east 104 ft	3,818	8, 10, 12 / 10, 12, 18	$2,525,000
8. 154th & Atkinson north 112 ft 154th & Atkinson east 1,213 ft, then 300 ft north Marine & Marigold east 1,789 ft	3,414	8, 10 / 10, 12	$2,223,000
9. 168th & Berendo north 166 ft 162nd & Berendo west 363 ft Redondo Beach & Normandie west 306 ft 164th & New Hampshire west 550 ft 164th & New Hampshire north 660 ft	2,045	8, 10 / 10, 12	$1,685,000
10. 149th & Budlong north 1,492 ft 149th & Budlong east 650 ft 149th & Berendo north 255 ft 149th & Berendo west 331 ft	2,728	8, 10 / 10, 12	$3,004,000
11. El Segundo & Crenshaw to Western	5,000	8 / 10	$3,385,000
12. 10-Year Sewer Pipe Lining Project		various	$5,000,000
Total			**$26,008,000**

Source: Quantum Consulting, Inc.

3.3 Financial Planning Assumptions

In consultation with Public Works department and Quantum Consulting representative, staff has developed financial planning assumptions that are described below.

3.3.1 Customer Growth & Annual Adjustments

In analyzing the 2-year report from Golden State Water, the City expects growth in the sewer service customer base of about 3% over the next ten years, which equates to an annual average of about 0.30% or 42 new accounts annually. Since California historic drought has slowly recovered, the City also expects water consumption will increase about 0.25% per year.

Per proposed fee schedule, the variable rates will be increased on July 1st of each year from FY 2017/18 to FY 2020/21. Staff will use this annual rate adjustment in the projection of the sewer fee revenue.

3.3.2 Fund Reserve Targets

Currently, the City does not have a reserve target. However, sewer program revenues must be adequate to meet annual capital and operating costs as well as maintaining adequate emergency reserves. The FY 2015/16 sewer ending cash balance is projected to be about $440,000, which is about 46% of the operating current costs. This level of reserve is more than adequate. However, since sewer fund cash balance is expected to be exhausted by the next fiscal year, staff recommends that going forward, the sewer program should maintain a minimum cash reserve of 25% of annual operating expenses, about $237,000 in FY 2015/16, to provide emergency funding as needed. The minimum fund target is projected to increase annually as operating costs increase. Staff also recommends that cost of the Council approved rehabilitation project of $900,000 be spread out in the next two fiscal years so the sewer program can maintain positive cash balance.

3.3.3 Financial Planning

To demonstrate the City's commitment to fiscal prudence, staff recommends that the City fully fund its operating and capital costs using sewer service fee revenue, interest income, and the available fund reserve. Staff does not recommend that the City issue bonds to finance its sewer pipeline replacements as proposed by Sewer Master Study in 2008. Sewer pipeline replacements are capitalized expenses that are needed for the general upkeep of the system. Sewer capital projects should be budgeted and funded annually from sewer fee revenue. Municipal bonds are typically used for one-time system retrofit costs and usually not for ongoing maintenance and repairs.

3.4 Financial Projection

The current revenues are not sufficient to meet current or future operating expenses. Hence, rate increases are needed to fully support the operation and maintenance of the system, compliance with regulatory requirements, construct the anticipated capital improvements, and build reserves to respond to emergencies. The implementation of the recommended 10-year sewer capital project will be budgeted based on fund availability for each fiscal year. It is imperative that rate increases take effect this upcoming fiscal year so the cash balance can build up to meet the fund balance target. Figure for FY 2016/17 below

assumes that the rate increase will become effective on December 1, 2016. Cash flow projection also includes a drawn down of the current cash reserve to fund the Council approved sewer rehabilitation project of $900,000 during the next two fiscal years. Table 7 below provides the Sewer Fund cash flow for the next five years.

Table 7: Sewer Fund Cash Flow
City of Gardena
Sewer Rate Study

	Estimated	Five Year Projection (Prop 218)				
	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
BEGINNING BALANCE						
Sewer Fund Cash	$1,187,298	$440,832	$41,498	$255,354	$424,627	$422,998
Revenues						
Sewer User Fees						
Current Rate	660,000	687,500	700,000	707,000	714,070	721,210
Additional from Rate Increase[1]	0	508,490	1,138,565	1,418,315	1,741,069	2,113,170
Runoff Pollution Inspection [2]	39,500	0	0	40,000	30,000	0
Interest Income [3]	7,000	4,408	415	2,553	4,246	4,230
Other Revenues	34	0	0	0	0	0
Total Revenues	**$706,534**	**$1,200,398**	**$1,838,980**	**$2,167,904**	**$2,489,385**	**$2,838,611**
Expenses						
Operating Expenses						
Salaries and Benefits[4]	540,000	588,082	605,725	709,930	732,612	756,082
Materials and Operations	205,000	143,650	147,959	152,398	156,970	161,679
Office Supplies & Expenses	163,000	168,000	162,740	167,622	172,651	177,830
Indirect Costs	40,000	40,000	40,000	41,200	42,436	43,709
Administration	0	90,000	92,700	95,481	98,345	101,296
Sewer Smart Cover Maint.	0	120,000	126,000	132,000	138,000	144,000
Subtotal O&M Expenses	**$948,000**	**$1,149,732**	**$1,175,124**	**$1,298,631**	**$1,341,014**	**1,384,596**
Operations Net Revenue	**($241,466)**	**$50,666**	**$663,856**	**$869,273**	**$1,148,371**	**$1,454,015**
Capital Expenses						
Equipment [5]	440,000	0	0	0	450,000	0
Capital Improvement Projects	65,000	450,000	450,000	700,000	700,000	1,500,000
Subtotal Capital Expenses	**$505,000**	**$450,000**	**$450,000**	**$700,000**	**$1,150,000**	**$1,500,000**
Total Expenditures	**$1,453,000**	**$1,599,732**	**$1,625,124**	**$1,998,631**	**$2,491,014**	**$2,884,596**
Total Net Revenue	**($746,466)**	**($399,334)**	**$213,856**	**$169,273**	**($1,629)**	**($45,985)**
ENDING BALANCE						
Sewer Fund Cash (No Rate Increase)	$440,832	($471,400)	($1,396,524)	($2,648,156)	($4,395,100)	($6,558,486)
Sewer Fund Cash (w/ Rate Increase)	$440,832	$41,498	$255,354	$424,627	$422,998	$377,013
Target Reserve Balance [6]	$237,000	$287,433	$293,781	$324,658	$335,253	$346,149
Target Met?	Yes	No	No	Yes	Yes	Yes

[1] Assuming that the rate increase becomes effective on December 1, 2016
[2] Estimate for services once every three years
[3] Interest income is estimated as 1% of the Beginning Fund Balance
[4] FY 2018/19 Salaries & Benefits reflect one additional staff to assist with additional workloads from capital projects
[5] $450,000 is for the Gap Vax Sewer Truck
[6] Reserve Fund targets are 25% of O&M expenses (similar to the % of the General Fund reserve target)

SECTION 4: Proposed Sewer Rates

This section provides a review of the City's current rate structure and the recommended rates.

4.1 Review of Current Rate Structure

In reviewing other cities' sewer rate structures, staff has found that most cities in the survey use a combination of fixed monthly charge and variable charges by water usage. This combination of fixed and variable rate structure has a distinct advantage of reducing the risk of severe revenue shortfall during the drought. The current city sewer rate is a variable structure based on water usage. Although the City's current rate structure seems reasonable and consistent with industry standard practice, it does not offer an adequate mechanism for the City to recover the cost of service from customers. Golden State Water currently bills customers the same rate to a single family unit vs. 10-unit apartment, even though the comparable sewer flow from the 10-unit apartment is almost ten times greater than that of single family unit. According to a Golden State Water report, water meter size on the dwelling determines the consumption capacity, and by extension the sewer system usage capacity. Therefore, staff recommends that it is fair for the City to incorporate a fixed charge based on water meter size into the current rate structure. This type of rate structure is common in California and is very reasonable.

4.2 Proposed Sewer Rates

The table and figure below provide the proposed sewer rate. This proposed sewer rate is a combination of fixed and variable structure that offers the utmost fair and equitable rate approach for the Gardena residents and businesses. Staff proposes that the current variable unit rate be increased from $0.25 per ccf to $0.35 and $0.50 in FY 2016/17, for residential and non-residential respectively. Thereafter, the variable rates will be increased based on the proposed fee schedule below on July 1st of each year from FY 2017/18 to FY 2020/21. In addition, a fixed rate will be charged based on the water meter size starting at $2.00 for the smallest and increasing at the rate of $1.00 for the next meter size. Unlike a monthly flat fee, the proposed fixed rate can only be charged if there is usage activity on the Golden State Water account.

In response to concerns of the proposed rate increase and its effect on low and fixed income citizens, staff recommends that the City adopt the proposed Sewer Lifeline Rebate Program[1] below to assist residents that will be most sensitive to this fee increase. This rebate program should be administered by the City and allows qualified citizens to receive an annual 50% rebate on the Fixed City Sewer rate. The City will have the flexibility to increase the rebate to accommodate additional hardship relief in the future. The estimate fiscal impact of this rebate program is $10,000 per fiscal year, including the cost for public outreach efforts.

[1] Sewer Lifeline Rebate Program (SLRP) – Seniors (over 60) or low and fixed income residents who live in single family unit and currently participated in California Alternative Rates for Energy (CARE) program with a utility company will automatically qualify for 50% rebate on Fixed City Sewer charge for the property or unit they reside in.

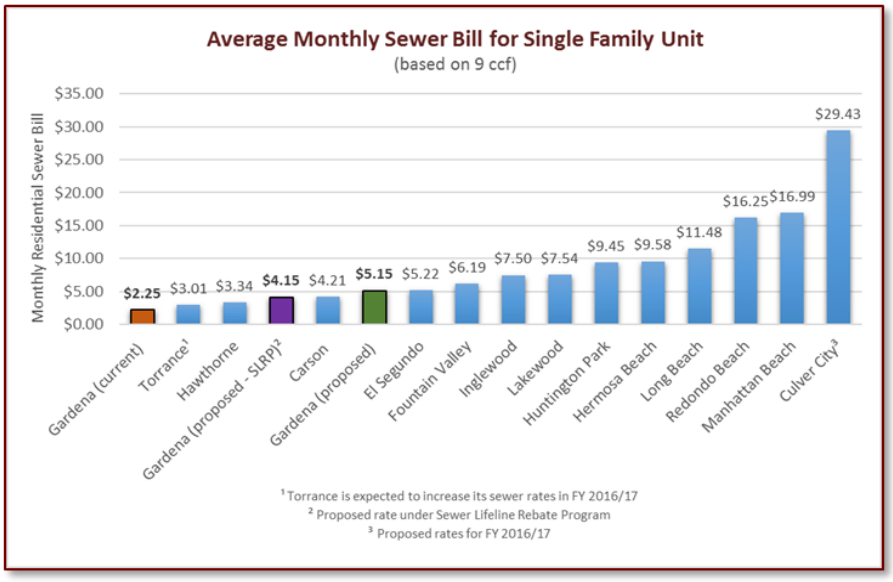
Table 8: Proposed Fixed Sewer Rates
City of Gardena
Sewer Rate Study

Water Meter Size	Monthly Fixed Sewer Charge per Water Meter Unit	
	Residential	Non-Residential
SLRP[1]	50% Rebate	
5/8”	$2	$2
3/4"	$3	$3
1”	$4	$4
1 ½”	$5	$5
2”	$6	$6
3”	$7	$7
4”	$8	$8

Table 9: Proposed Variable Sewer Rates
City of Gardena
Sewer Rate Study

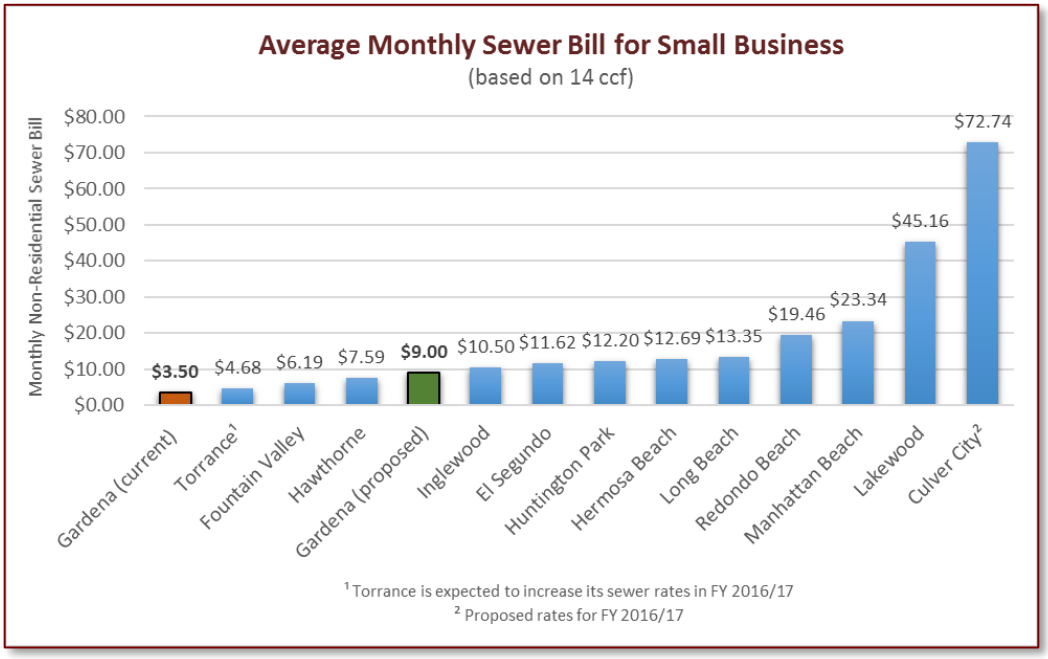
Class	Variable Sewer Rates per Sewer Unit (ccf)					
	Current	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Residential	$0.250	$0.350	$0.4358	$0.5345	$0.6481	$0.7786
Non-Residential	$0.250	$0.500	$0.5965	$0.7075	$0.8350	$0.9815

The chart below illustrates the impact of the proposed sewer rate increases on the typical single family residential monthly bill in comparison to the bills charged by other comparable local agencies. While no two sewer systems are exactly alike due to system age, condition, materials, and maintenance practices, this chart indicates the required funding for these agencies to property operate and maintain their systems. Currently, the City of Gardena’s average sewer bill is the lowest of all the surveyed agencies. Should the proposed rate increases become effective on December 1, 2016; the City of Gardena’s average sewer fee bill would still be on the lower end of the surveyed agencies.



[1] Sewer Lifeline Rebate Program (SLRP) – Seniors (over 60) or low and fixed income residents who live in single family unit and currently participated in California Alternative Rates for Energy (CARE) program with a utility company will automatically qualify for 50% rebate on Fixed City Sewer charge for the property or unit they reside in.

Below is a chart that shows the City of Gardena typical small business current and the proposed rate monthly bill in comparison to other agencies.



4.3 Proposition 218 Process

On November 1996, California voters passed Proposition 218, the "Right to Vote on Taxes Act". This constitutional amendment protects taxpayers by limiting the methods by which local government can create or increase taxes and fee charges without taxpayer consent. The California Health and Safety Code Section 5471 and Government Code Section 54344 allows fee collection and charges providing service to users to operate and maintain sewer system. The fees collected can only be used for sewer operation and maintenance sewer rehabilitation projects. Under the authority, the City can increase its sewer fee via Proposition 218 process. To comply with Proposition 218, the City must:

1. Develop a Notice of Public Hearing on Proposed Increases to Sewer Rates, citing the proposed maximum rates, calculation, utilization of revenues, public hearing date, and instructions on how to protest the proposed rates;
2. Mail the notices to property owners and/or tenants at least 45 days before the scheduled public hearing; and
3. Collect and maintain a count of all written protest votes received. The City cannot impose the new rates if 50% plus one unique parcel protest are submitted to, and validated by, the City Clerk. Immediately, after the close of public hearing, the City Clerk will determine if a majority protest exist and report the results to the City Council. If the majority protest doesn't exist, the Council is authorized to adopt the proposed rates via an ordinance.

SECTION 5: Alternatives & Examples

5.1 Alternatives

Before recommending the rate increase, staff has explored and considered possible alternatives including Los Angeles County Consolidated Sewer Maintenance District (CSMD). The County district is one of the largest and currently provides services to several cities in South Bay area such as Rancho Palos Verdes and Carson. The current annual assessment is $50.50 per unit or $4.21 per month. The City would need to make a commitment to annex the current sewer system to Los Angeles County Public Works (LACPW). The annexation process would take up to 6 months to complete and fee would take effect in property tax on November 2016. However, this alternative does not solve the funding needs for capital improvement since the County would require an estimated $21 million in deferred improvements by the City prior to releasing maintenance to LACPW. The revenue stream to the County will be pooled and any left-over levees fee will stay with the County. Furthermore, since the City would lose control over sewer maintenance operations, response times to incidents such as overflow is expected to increase dramatically as observed by other agencies in the maintenance district.

In analyzing the pros and cons of annexation into the County's Consolidated Sewer Maintenance District, staff has concluded that it is not economically feasible for the annexation since the City would still need funding for the deferred improvement projects.

5.2 High Cost of Deferred Maintenance Examples

Just about every jurisdiction in California has increased its fee in recent years and is part of an effort to fix aging sewer systems. The City of Gardena has not increased its sewer fee in 20 years. The City has been reactively fixing corroding sewer lines but falling behind in sewer capacity upgrades to accommodate increased flows and reduce the risk of overflow.

The cost of an aging sewer system and its consequences can be devastating to the City and its community as revealed by the City of South Pasadena case. In 2011, after repeated sewage overflows due to the corroded aging sewer system, the City of South Pasadena was served with a notice of violation and the initial fine of $2.8 million. As part of the settlement, the City must complete 60% of the needed repairs within 9 years. Consequently, the City was forced to issue $11 million in debt and increased its sewer rate dramatically over 5 years. The City of South Pasadena's current sewer rate for a single family unit is $14.93 per month.

As we can see in the City of South Pasadena case, the high cost of deferred maintenance and upgrades can be devastating to the City financially. It's also very disruptive to the business community as sewage overflows cause nearby business to temporarily close due to health and safety concerns. The City of South Pasadena case highlighted the importance of a structurally balanced sewer capital improvement program and the proactive approach to sewer maintenance.