



**Draft For Housing and Human Services
Commission Review on July 27, 2011**

Council Date: September 20, 2011

SUBJECT: Study Issue: Utility Bill Assistance for Low Income, Fixed Income, Senior, and Disabled Utility Customers

BACKGROUND

During the public hearing for adoption of the FY 2010/2011 utility rates, the impact of utility costs on the City's senior, fixed income, low income, and disabled communities was raised. Council directed staff to complete a study issue examining the feasibility of offering discount rates or assistance programs for qualified Sunnyvale utility customers to help alleviate the impact of the City's utility rate increases. The study was to include estimates of the potential cost for such a program, an analysis of Proposition 218 issues, and proposals for funding and implementation if the City were to adopt this program.

The City has practices in place to insure the collection of utility revenues that include opportunities to work with customers who are experiencing hardship. However no discounts or special rates are provided to any customers.

Currently the City's Utility Billing Office sends a bill once every two months for residential water, wastewater, and solid waste services already provided. The bills are due upon presentation, and become past due if not paid 25 days from the bill date. The City of Sunnyvale Municipal Code requires that a 5% penalty be assessed when a payment is not received by the due date. If payment is not received 30 days from the bill date (allowing 5 days for the initial mailing of the bill), the late penalty is assessed and a reminder notice is mailed. If payment is not received, a final notice is hand-delivered to advise customers that the water is scheduled for shut-off. A \$40.00 Delinquency Processing Fee is assessed to the account at that time. If payment is still not received, the account is placed into shut-off status and the water service is interrupted. Finally, once payment of the delinquent balance is received, a \$40.00 fee (\$85.00 after 4pm) is collected to restore water service.

Upon request, at any time prior to shut off, payment extensions and/or payment arrangements are available to qualified customers who cannot pay their bill. Customers who cannot meet the requirements or are not eligible for an extension or payment arrangement (due to a history of broken payment arrangements or no ability to pay) are referred to Sunnyvale Community Services (SCS) for assistance in paying their utility bill. SCS works with customers to help them recover from financial difficulty and also provides one-time assistance with paying utility bills.

Utility Billing staff works cooperatively with SCS to help customers reduce their utility costs and make payment.

EXISTING POLICY

Community Vision Goal XIV: Caring Community, sets as a citywide goal the ability to “provide support for those in the community who are not fully able to support themselves, so that all residents may provide for themselves.”

Sunnyvale Municipal Code sections 12.16.020 (Wastewater), 12.24.010 (Water), and 8.16.120 (Solid Waste) authorize the City Council to establish by resolution fees and charges based on cost influencing factors.

Policy 7.11.1a.5 of the General Plan’s Fiscal Sub-Element states “The user fees established for each utility will be reviewed annually and set at a level that will support the total costs of the utility, including direct and indirect costs and contributions to reserves set by Council policy.”

DISCUSSION

Each year, as part of the yearly process of reviewing the financial condition of the utility enterprise funds, staff recommends that the City Council adopt annual changes in utility rates. For several years the City of Sunnyvale’s utility rates have been rising faster than inflation. In fact, the average monthly bill for water, wastewater and solid waste services has increased cumulatively by 27% over the past five years. In real dollars, the average utility customer is paying \$24 more per month now than they did five years ago. These increases have been necessary to cover rising costs of wholesale water, increased infrastructure replacement needs in both the water and wastewater utilities, and reduced sales resulting from the economic downturn.

The water, wastewater, and solid waste services the City provides are core public health and safety services. The provision, and therefore the affordability of these services, is critical for all residents of Sunnyvale. In fact, the cessation of service to one property or customer can affect the health and safety of neighboring properties and customers. This is the primary reason the City does not interrupt either garbage or sewer services. Given general public health concerns, it is reasonable from a policy perspective to consider a program to assist those in need with the costs of these services.

Additionally, staff has received numerous requests from the City’s senior community for discounts. However, given that many senior residents may not necessarily have any financial hardship, staff limited its program evaluation to discounts based on financial need only.

It is common for investor-owned utilities (for example, San Jose Water Company) to offer low income or senior discounts for utility services to these customer groups. However municipal utilities are regulated differently. Municipal water, sewer, and solid waste utilities operate in an increasingly stringent regulatory

environment for rate setting. The most significant change over the past several years was the result of the Bighorn-Desert View Water Agency v. Verjil California Supreme Court case which concluded that water, sewer, and solid waste utility charges were property-related fees subject to the requirements of Proposition 218.

For the purposes of this discussion, the most relevant impact of the Bighorn ruling is that rates may not exceed the cost of providing service and that rate proceeds may be used only to provide the relevant services. This means that municipal utilities may not provide rates that subsidize one class of customers at the expense of another. Staff researched programs that other municipal utilities were providing and was able to only locate electric utility subsidies, and no public water, wastewater, or solid waste utility subsidies that were not funded by donations.

Given the restrictions on municipal utilities, staff considered several different options for providing funding. These included grants, donations, voter approved taxes, and transfers from the General Fund.

Grants might include human services grants like Community Development Block Grants (CDBG) or grants from non-profit foundations. These are typically prioritized for more critical needs (e.g. housing or homelessness) and have been diminishing as a result of the economic downturn without any reduction in demand for the funds. In addition, federal regulation prohibits CDBG funds from providing beneficiaries with ongoing subsidies (i.e. anything longer than 3 months of assistance), so this approach would only allow very short term assistance. SCS already receives the maximum amount of CDBG funds the City can provide. Obtaining voter approval to add a tax to utilities to provide subsidies to other customers would be challenging to pass in the current economic environment, and would require 2/3 approval as it would be for a specific use. Given the financial condition of the General Fund, a transfer would only be possible at the expense of other services or service levels. Therefore, staff has concluded that the most viable and cost effective option is to accept donations earmarked to create a fund for utility customers in need.

The proposed donation program would provide a subsidy for qualified utility billing customers. The subsidy would be funded by customer donations paid through the regular utility bill and would be administered by SCS. The City would collect and remit funds to SCS. Should Council direct staff to proceed with this program, staff would work to set up the infrastructure to accept donations and work with SCS to establish program guidelines. Initial discussions with SCS indicate that they could easily administer monies granted to them by the City for the purpose of paying City provided utility costs for customers in need. Qualified customers may be eligible for either one time emergency assistance or the payment of one full utility bill per year subject to funding availability. This would effectively provide a subsidy for the annual cost of utilities and is more feasible and cost effective than providing an ongoing subsidy.

The proposed program would be rolled out as soon as possible but no later than the beginning of FY 2012/2013. The program would be presented to new customers upon activation of a utility account and a utility insert prepared to inform existing customers of the program.

FISCAL IMPACT

Implementation of this program would have a minor fiscal impact. The City's Utility Billing Program maintains a very high collection rate of over 99% of utility receivables. This is due to City's practice of interrupting water service for non-payment. Therefore providing assistance will not significantly improve revenue collection. There will be minor costs for setting up and administering the program. Staff estimates that approximately 20 hours of staff time will be required. Additionally, approximately \$1,700 a year will be required for preparing, printing and inserting a utility billing insert. These costs can be incorporated into the FY 2012/2013 budget for the Utility Billing Program through the regular budget process.

PUBLIC CONTACT

Public Contact was made through posting of the Housing and Human Services Commission agenda on the City's official-notice bulletin board, on the City's Web site, and the availability of the agenda and report in the Office of the City Clerk.

ALTERNATIVES

1. Direct staff to design and implement a donation program to provide funding for a utility bill assistance program for low income utility customers.
2. Take no action on this Study Issue leaving the current practices and procedures in place.

RECOMMENDATION

Staff recommends Alternative 1, direct staff to design and implement a donation program to provide funding for a utility bill assistance program for low income utility customers.

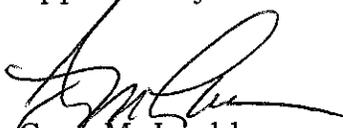
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