



# STAFF REPORT

AGENDA NO: 10b

MEETING DATE: January 21, 2020

**To:** Honorable Mayor and City Council

**Date:** January 21, 2020

**From:** Lisa K. Goldman, City Manager – (650) 558-7243  
Syed Murtuza, Public Works Director – (650) 558-7230

**Subject:** Discussion of Burlingame Hills Sewer Maintenance District Operational and Governance Options Administrative Draft Report

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## **RECOMMENDATION**

Staff recommends that the City Council discuss the Burlingame Hills Sewer Maintenance District (BHSMD) Operational and Governance Options Administrative Draft Report and provide feedback.

## **BACKGROUND**

Last year, Supervisor Pine commissioned a study to evaluate current BHSMD services and the fiscal viability of the district including operational and governance options that would create efficiencies. The objective of the study is to improve the cost effectiveness, efficiency, and sustainability of sewer services and other public services in Burlingame Hills and nearby unincorporated areas. Berkson Associates performed the study.

As the report indicates, the BHSMD provides sewer services to the unincorporated area of Burlingame Hills and is operated by the County's Department of Public Works. The County also provides other municipal services to Burlingame Hills, such as planning and code enforcement. Although the San Mateo County Fire Department has jurisdictional authority and is responsible for structural fire protection and rescue services in the County unincorporated areas, the Central County Fire Department (CCFD) serves as the first responder for fire and emergency medical services due to the proximity of Station 35 to the Burlingame Hills unincorporated area. (The County does not provide funding to CCFD for this purpose.) In addition to receiving potable (drinking) water services from the City, the Burlingame Hills residents use the City's recreation and library facilities.

## **DISCUSSION**

According to the report, the BHSMD needs an estimated \$12.7 million of capital improvements; funding these improvements, plus annual operations, could lead to rate increases of 100% for BHSMD ratepayers. (The current annual rate is \$1,675 per unit.) The capital improvements are currently programmed over a ten-year period beginning in FY 2020-21.

The report notes that current and future ratepayer costs are high due to the following:

- The sewer system is relatively small; there is a limited customer base; and there is an absence of commercial uses to help absorb costs.
- The area's hilly topography and high proportion of sewer lines in easements on private property increase costs of maintenance and improvement.
- The aging system was built in the 1940's and has only recently has been undergoing significant upgrades.

The study evaluates three options, which are noted on page vi of the attached draft report. Additional details on each option are provided later in the report. The three options are:

**Option 1: Status Quo Service Provider** – Burlingame Hills (and two other unincorporated areas) remain unincorporated, governed by the County of San Mateo Board of Supervisors, and BHSMD's sewer services continue to be managed by the County Department of Public Works (DPW) as a County-dependent district governed by the Board of Supervisors. No changes in current property tax allocations are assumed.

**Option 2: BHSMD remains until BHSMD completes capital improvements, then annexation and BHSMD dissolution/merger with the City** – BHSMD remains intact and County-operated until BHSMD completes the estimated \$12.7 million of needed high priority capital improvements, currently estimated in FY 2029-30. Upon completion of the improvements, annexation of Burlingame Hills would occur and BHSMD would be dissolved; the City would be the successor agency to all functions, assets, and liabilities of BHSMD, and may create a sewer "zone" specific to Burlingame Hills for financing purposes.

**Option 3: Annexation of Burlingame Hills to the City and BHSMD dissolution with County participation in funding for City completion of capital improvements** – The City annexes Burlingame Hills (and two other unincorporated areas) and BHSMD would simultaneously be dissolved and merged with the City's sewer services. The County, in addition to Burlingame Hills sewer ratepayers, would be responsible for participating in funding the estimated \$12.7 million of needed capital improvements to be completed by the City. Funds for improvements will not be subsidized by pre-annexation City of Burlingame sewer customers or by the City. The City may create a sewer "zone" specific to Burlingame Hills.

In Supervisor Pine's attached letter transmitting the report, he states his belief that "the Burlingame Hills should be incorporated into the City of Burlingame but not until the identified sewer system upgrades have been completed." Supervisor Pine further explains:

As the report makes clear, annexation would align with good governance principles, yield economic efficiencies, and correct jurisdictional anomalies. Assuming we find a viable financial mechanism to address the necessary sewer infrastructure upgrades, Option 2 will relieve the Burlingame Hills residents of significant future rate increases, and link them officially to the community of which they currently feel a part. Meanwhile, the City of Burlingame can be kept financially whole and in fact quite likely end up in a net positive fiscal position."

The report notes that the City of Burlingame may benefit financially from annexing the BHSMD parcels and other, smaller unincorporated areas depending on the outcome of property tax negotiations, the addition of property value, and the ability to spread City costs over a larger base.

### **Staff Comments**

City staff provided quite a bit of information to Berkson Associates for their use in preparing the report and agrees that the basic details with respect to many City services, including Police, Parks and Recreation, Library, and Community Development, are accurate.

Unfortunately, because this is a high-level review of the BHSMD, it is lacking in certain detail. For example, the report notes that “in past years, portions of the BHSMD sewer system have failed due to multiple factors including grease, other non-flushable items, and tree roots, and these issues contributed to sanitary sewer overflows.” According to Public Works staff, however, there are other causes including a lack of maintenance of upper laterals, inflow/infiltration, and a high probability of illegal connections to upstream sewer laterals because they are not maintained by the County.

The report identifies \$12.7 million of needed high priority improvements, but it is not clear what year this number is tied to, nor whether it includes all planning, engineering design, construction, inspection, and construction management costs associated with the high priority projects or the costs of overall system improvements. Additionally, the report does not include information regarding potential liabilities to the City of Burlingame associated with each of the identified options.

The report provides three options, two of which result in the City’s annexation of the BHSMD area. Staff notes that under Option 2, a comprehensive and independent evaluation of the system would need to be done to assess the integrity of the system and associated costs and liabilities in order to determine whether the system is ready for City annexation. Under Option 3, staff is concerned about the City accepting liability without the benefit of any improvements and without the benefit of a comprehensive study of the impacts to existing Burlingame ratepayers, the maintenance costs, and the associated resources required. Under both options, staff is concerned about the impact on City staff resources, which are already constrained. “Staff is also concerned that the report’s projected impact on the City’s General Fund does not adequately account for the increased costs of services to the annexed areas.”

In the area of road maintenance, the City and County have different standards for roadways, which would present some challenges for maintenance. The County has narrow roads without sidewalks and pedestrian infrastructure as well as inadequate street lights. This could present a liability to the City. In addition, maintaining a roadway system in a hilly terrain is difficult and costly. Although the City also has hilly areas, the roadway system also includes flat areas and wider streets with sidewalks and pedestrian lighting.

Finally, in the area of storm drains and storm water management and state mandated regulatory provisions, staff believes that the BHSMD area does not have adequate storm drain protection infrastructure such as proper drainage inlets and pipes. Due to steep terrain, access to the infrastructure for maintenance purposes is likely to be difficult and costly. Staff is concerned about increased liability in taking on the storm drain infrastructure as well as the staff time required to build and maintain this infrastructure. Furthermore, the City would be responsible for ensuring

compliance with state mandated storm water regulations, which would substantially impact current staffing resources.

***Council Comments***

In transmitting the report to the City Council and City staff, Supervisor Pine's staff requested that the City send them any corrections or feedback before January 24 (the deadline was extended from January 17 to allow the City Council an opportunity to review and comment on the report). Supervisor Pine's office will consolidate any feedback received and provide it to Berkson Associates, who will prepare a public circulation draft. Supervisor Pine's office will then work with Mayor Beach, City staff, and Burlingame Hills leadership on next steps.

**FISCAL IMPACT**

There is no fiscal impact associated with this review. Significant staff time would be required should the City and County pursue either Option 2 or Option 3 in the future.

Exhibits:

- Supervisor Pine transmittal letter
- Administrative Draft Report