



CITY COUNCIL REPORT 2009-111

8A

JULY 21, 2009

TO: BELINDA B. ESPINOSA, CITY MANAGER

FROM: DEAN E. ALLISON, DIRECTOR OF PUBLIC WORKS

SUBJECT: INCREASE IN SEWER USER FEES

RECOMMENDATIONS

Conduct a Public Hearing and adopt Resolution 2009 – xx, a Resolution of the City of Pinole setting new sewer user rates for FY 2009– 10, FY 2010– 11, and FY 2011– 12.

BACKGROUND

Customers in the City of Pinole served by the Pinole Hercules Water Pollution Control Plant currently pay the following sewer user fees:

- Single-family Units: \$38.15 per month
- Multi-family Units: \$24.20 per month
- Non-Residential: Rate is based upon water usage and business activity

User rates were most recently increased in 2006 to generate funding to eliminate a structural imbalance in the Sewer Fund and to allow for the issuance of bonds in the amount of \$10 million for capital projects. The projects funded were the fourth digester, the reconstruction of the land outfall line located in Parker Avenue, a Master Plan for the sewer collection system, and two years of funding for a sewer-lining program.

Shortly after the 2006 rates were established, a new operating permit from the Regional Water Quality Control Board was issued. That permit, dated June 2007, established operating standards for the plant, identified deficiencies at the plant, and most importantly established a timetable to eliminate the deficiencies.

Since 2006, the cities of Pinole and Hercules have been investigating what plant improvements are needed to address the deficiencies. In addition, the City of Pinole completed a Master Plan of its sewer system, which identified a number of capital projects needed in the collection system.

The 2006 rates do not provide adequate funding for any capital projects needed to eliminate the deficiencies at the plant, or for the capital improvements identified by the Sewer Master Plan. Finally, the rates established in 2006 do not include an annual increase adjusting for inflation.

It is clear that the sewer rates in the City of Pinole must be increased in order to meet the milestones identified in the permit. The City of Hercules has already increased their

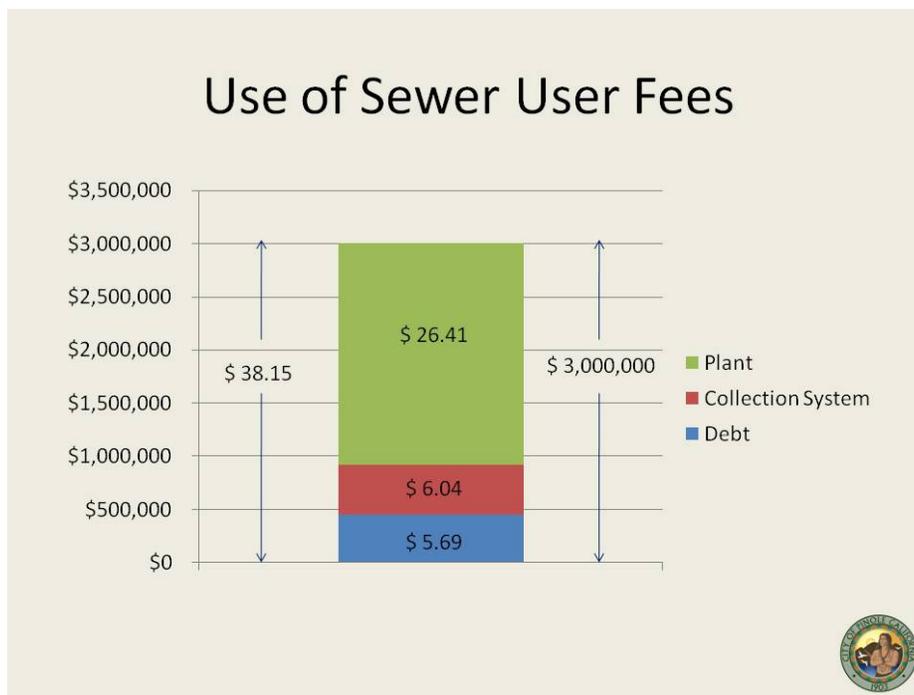
rates. The balance of this report discusses the rationale for how much the rates must increase and when the increases need to be in place.

DISCUSSION

In FY 2008-09, the existing sewer rates will generate approximately \$3.0 Million which is programmed as follows:

Item	Annual Amount	Cost per Month for Single Family Home
Operation of Treatment Plant	\$ 2,077,000	\$26.41
Operation of Collection System	475,000	6.04
Debt Service for 2006 Bonds	448,000	5.69
Funds set aside for Capital Improvements	0	0
Total	\$ 3,000,000	\$ 38.15

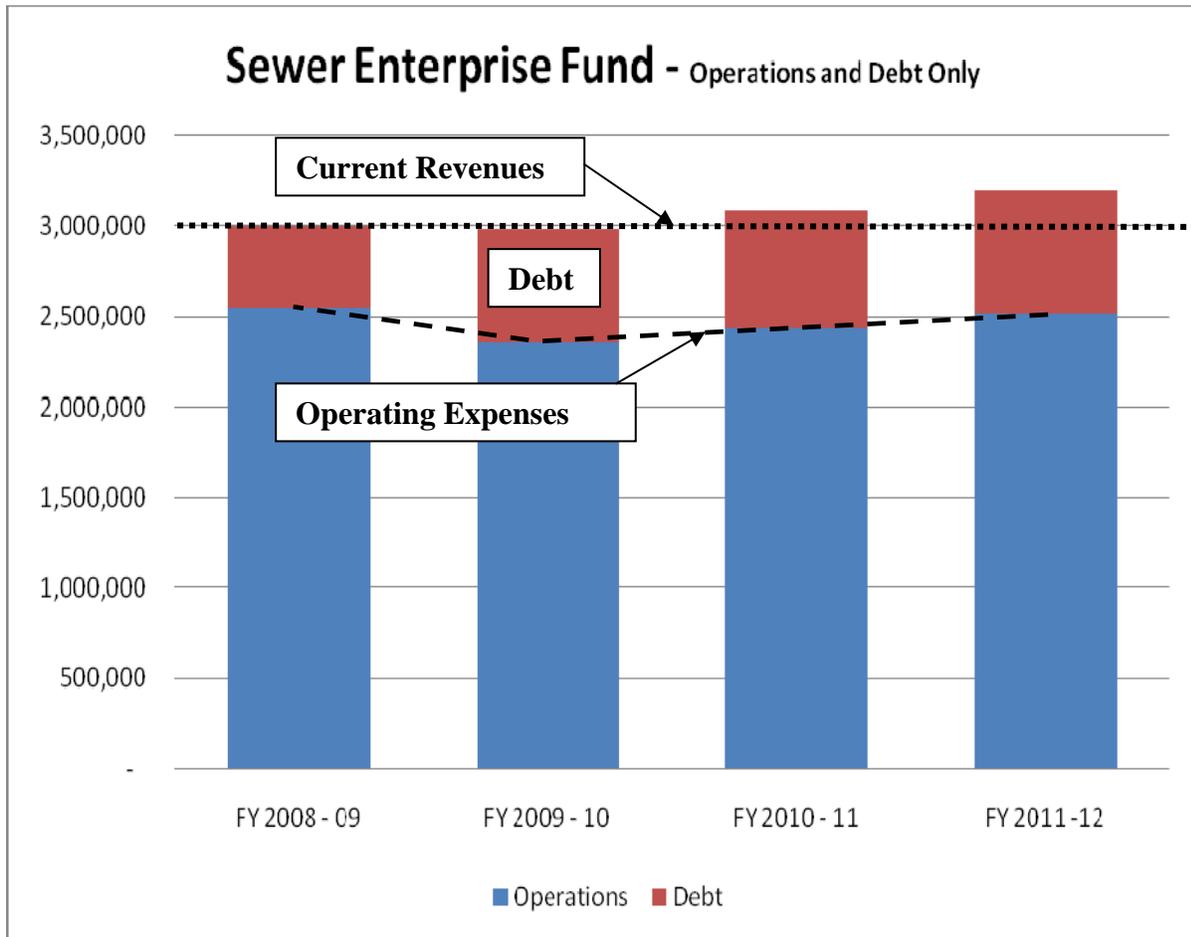
That same information presented graphically is as follows:



FY 2009/10 Budget

The proposed FY 2009-10 Sewer Enterprise Fund budget has “held the line” on spending. This together with a salary savings resulting from staff restructuring at the Corporation Yard and at the Plant has resulted in a net decrease in operating costs of approximately \$ 140,500. This cost savings, however, is offset by an increase in debt service payments. The annual debt service for the 2006 bond will increase from \$447,973 in FY 2008/09 to \$629,273 in FY 2009/10.

A three year look ahead budget for the Sewer Enterprise Fund is as follows:



It is anticipated that operating and maintenance costs will increase at a rate of approximately 3.5% beginning in FY 2009/10. This is driven primarily by increases in the costs of power, chemicals, fuel and supplies.

As shown above, the current rate structure provides adequate funding for continuing operations and maintenance costs as well as for payment of debt in FY 2009-10 but not for any capital improvements that are required.

Capital Needs

Since the plant most recently received its permit from the Regional Water Quality Control Board, a series of engineering studies has been prepared to identify capital improvements needed both at the plant and in the collection system.

At the Water Pollution Control Plant

From now through FY 2015/16, there will be a significant need for capital to bring the Water Pollution Control Plant into compliance with the June 1, 2007 permit from the Regional Water Quality Control Board. The expenditures include engineering studies, an Environmental Impact Report, preparation of engineering plans and contract documents, and construction of the plant improvements.

- An Environmental Impact Report (EIR) for two options of plant upgrades selected by the JPA Board in October 2008, as well as the "Pinole Only" option must be prepared. The cost of this study is estimated at \$300,000. Pinole's share of this cost will be \$150,000. The report must be underway soon and completed by August 2010.

The cost of this and other preliminary engineering studies have been completed from available capital from the 2006 bond offering. A complete listing of the expenditures is attached as Attachment A.

- Prior to constructing the plant upgrades, final engineering drawings must be prepared. The estimated cost for these services is \$5 million. Half of this cost, or approximately \$2.5 million is the responsibility of the City of Pinole the other half is the responsibility of the City of Hercules. This work must begin by July 2011.
- Over the past several years, the Wastewater JPA has been studying six options for potential plant improvements and has narrowed it down to two options which are currently being further evaluated prior to moving on to final engineering and design. The current cost estimate for the two preferred options is approximately \$46 million. Half of this cost, or approximately \$23 million, is the responsibility of the City of Pinole and the other half is the City of Hercules. Construction must be underway by July 2013 to meet the Board deadline of completion of November 2015.

Collection System

- In May 2008, the City of Pinole completed a Sewer Master Plan. The City's collection system is 50+ years old and is in need of upgrades and replacement. The Master Plan identified \$3.12 million of deficiencies over the next five years consisting of sewer lining and rehabilitation in the amount of \$625,000 per year.

A summary of capital needs is as follows:

Fiscal Year	Recommended Upgrades to Collection System	Anticipated Capital Cost for Plant Upgrades*
FY 2009-10	\$625,000 for Sewer Lining	\$ 0
FY 2010-11	\$625,000 for Sewer Lining	\$2.5 Million for Design Costs
FY 2011-12	\$625,000 for Sewer Lining	
FY 2012-13	\$625,000 for Sewer Lining	\$ 0
FY 2013-14	\$625,000 for Sewer Lining	\$23 Million for Plant Upgrades

Funding for Capital Needs

It is clear that the City of Pinole must issue long term debt to fund these capital projects. However, given the state of the national economy, and that precise cost information is not yet available for plant upgrades; the issuance of long term debt at this time is not practical.

A more practical approach is to fund needed improvements out of current revenue to the maximum extent possible and to set a reasonable rate structure that allows for the “saving” of revenues over the next several years in anticipation of issuing debt for construction.

Need for Immediate Cash Flow

The City will need to prepare final engineering drawings for the plant improvements soon after the EIR is certified in August 2010. The cost of those engineering services is estimated at \$2.5 million. There will not be adequate funds generated by the existing or revised sewer rates to fund these costs from current revenue. In addition, issuing debt for this minor amount is not practical.

One alternative is for the City to borrow our share of the final engineering costs from the settlement fund from the Pinole Assisted Living Community facility (PALC) temporarily, until the City is ready to issue a major bond issue for the construction costs, at which time the loan would be repaid.

PROPOSED SEWER RATES

The need to increase sewer user fees is driven by the need for raise capital to construct improvements at the plant. Construction of those improvements must be in place no later than November 2015, which means they must be under construction by July 2013.

This will require and increase in sewer rates. The proposed rates were determined by taking a three step approach:

Step One: What rate must be established to fund the 2015 improvements?

The preliminary engineering study now underway identifies a total capital cost for the plant upgrades at \$46 million in 2015 dollars. Under our current JPA agreement, the City of Pinole will be responsible for half of this cost or \$23 million and the City of Hercules is responsible for the other half.

Our financial consultant has indicated that at current interest rates, the monthly rate for single family homes to generate enough capital to fund the plant upgrades (\$23 million) would be approximately \$24 per month. This is in addition to the monthly rate for operations, which is currently at \$38.15 per month, for a total of \$62.15

Step Two: When must the rates be put in place?

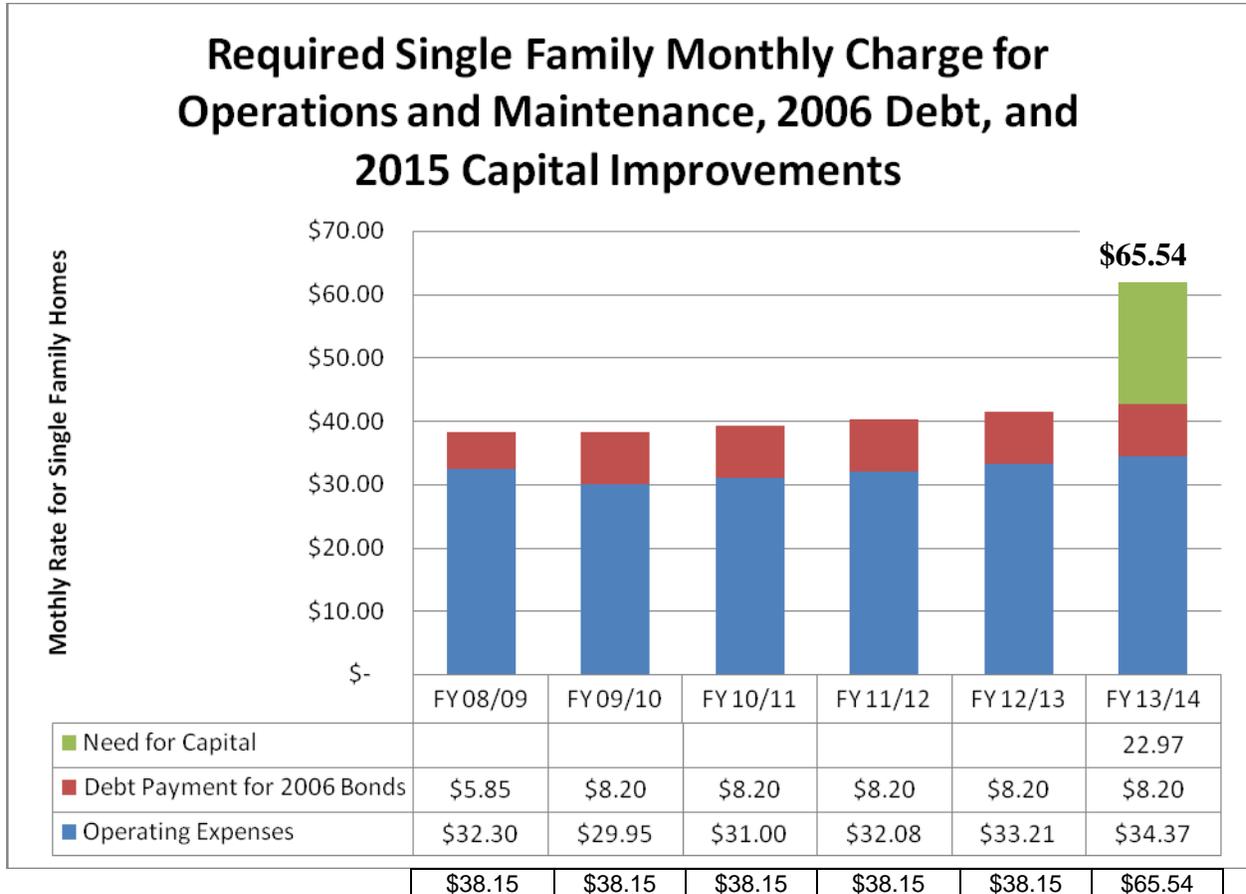
While it is far better to increase rates sooner than later, given the significant increase that will be needed, we can mitigate the financial impact to our customers by spreading out the rate increase over the longest period of time and still meet the Regional Water Board's deadline.

The permit from the Regional Water Quality Control Board mandates that improvements must be in place by November 2015. To meet this completion date, construction must be underway by July 2013. Thus, the latest possible year to have the necessary rate increase in place is FY 2013/14.

	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
Complete Prelim Studies	X					
Design Plant Improvements		X	X			
Construct Plant Improvements					X	X

Step Three: How should rates increase from where they are now to where they need to be?

At the most recent public workshop on the proposed wastewater rate increases, the City Council directed staff to propose a rate increase strategy that would gradual increase rates over a long period of time to avoid a single one year increase in rates.



As shown above the current rate in FY 2008 – 09 is \$38.15 per month and the required rate in FY 2013/14 must be \$65.54 to meet our capital needs.

There was much discussion at the City Council meeting on May 26, 2009 on how the rates should transition from where they are to where they need to be in 2013. That discussion included the relationship between single family rates and multi-family rates. After much discussion the following rates for proposed

Year	Proposed Rate	Multi Family Rate	Non Residential
FY 2008/09	\$ 38.15	\$ 24.20	Base Year
FY 2009/10	42.51	31.88	11.4% Increase
FY 2010/11	47.37	35.53	11.4% increase
FY 2011/12	52.77	39.58	11.4% increase

Update since May 26, 2009 meeting

Since the May 26, 2009 City Council meeting the City of Pinole has performed significant outreach to our ratepayers to make them aware of this Public Hearing on the proposed rate increase.

- Notices were mailed to all ratepayers informing them of this Public Hearing at which a rate increase would be considered.
- June 23, 2009 Public Meeting at City Hall to present the proposed rate increase
- July 9, 2009 Public Meeting at the Senior Center to present the proposed rate increase.
- The video of the June 23, 2009 meeting was aired on Channel 26 on a regular basis since June 23, 2009
- On July 11, 2009 staff attended the Farmer's Market to notify ratepayers of the proposed rate increase.

Revenue Projections

The City is interested in establishing a more fiscally conservative approach to managing the sewer enterprise fund. This includes a limited "pay as you go" or cash financed program in an effort to limit future debt issuance. As such if the proposed rate increases are approved there will be a small amount of funding available each year which will be designated into a reserve fund for future capital improvements only, and not operations and maintenance costs. By undertaking this effort it is anticipated that future debt issuance and future rate increase can be kept to a minimum.

Attachments

Attachment A – Resolution

RESOLUTION NO. 2009 - __

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PINOLE, COUNTY OF CONTRA COSTA, STATE OF CALIFORNIA, APPROVING SEWER USE CHARGES.

WHEREAS, the Pinole Municipal Code at Section 13.05.420 provides that all users shall pay a user charge for the city wastewater disposal services, which shall be set from time to time by the Pinole City Council; and

WHEREAS, the City Council did commission the preparation of a comprehensive user charge study for wastewater collection, treatment and disposal services by Mr. Craig Lawson a qualified utility management consultant; and,

WHEREAS, on May 26, 2009, the City Council considered the tentative user charge study prepared by Mr. Lawson and set a tentative rate schedule; and

WHEREAS, Mr. Lawson's final rate study was completed on June 17, 2009, it has been determined by the user charge study that to meet the capital and operational needs of the Water Pollution Control Plant and the local collection system, increased sewer user charges are required; and

WHEREAS, in June and July of 2009, in accordance with the requirements of Proposition 218, the City notified the owners of property within the City of Pinole of the proposed automatic rate increases, and notice of the proposed increase and the public hearing was published in the West County Times; and

WHEREAS, on July 21, 2009, after a properly noticed public hearing at which there was not a majority protest, the City Council approved adjustments to the City's sewer service rates for 2009-10, 2010-11, and 2011-12.

NOW THEREFORE, BE IT RESOLVED by the Pinole City Council that the annual sewer user charge shall be set for the fiscal year 2009 - 10 as follows (where "DU" signifies a dwelling unit and "Ccf" signifies a measurement of one hundred cubic feet of water consumption):

Customer Class	Billing Units	Monthly Charge Rate
Residential Users		
Single-family	DU	\$ 42.51
Multiple-family	DU	\$ 31.88

Commercial Users

Auto Steam Cleaning	Ccf	\$ 10.42
Bakeries	Ccf	\$ 7.62
Commercial Laundries	Ccf	\$ 4.71
Grocery with garbage/disposal	Ccf	\$ 8.17
Mortuaries	Ccf	\$ 7.44
Restaurants	Ccf	\$ 9.36
All Other	Ccf	\$ 3.89

Institutional Users

Schools	Ccf	\$ 4.14
All Other	Ccf	\$ 3.02

BE IT FURTHER RESOLVED by the Pinole City Council that the annual sewer user charge shall be set for the fiscal year 2010 - 11 as follows:

Customer Class	Billing Units	Monthly Charge Rate
Residential Users		
Single-family	DU	\$ 47.37
Multiple-family	DU	\$ 35.53
Commercial Users		
Auto Steam Cleaning	Ccf	\$ 11.61
Bakeries	Ccf	\$ 8.49
Commercial Laundries	Ccf	\$ 5.25
Grocery with garbage/disposal	Ccf	\$ 9.10
Mortuaries	Ccf	\$ 8.29
Restaurants	Ccf	\$ 10.43
All Other	Ccf	\$ 4.33
Institutional Users		
Schools	Ccf	\$ 4.61
All Other	Ccf	\$ 3.36

BE IT FURTHER RESOLVED by the Pinole City Council that the annual sewer user charge shall be set for the fiscal year 2011-12 as follows:

Customer Class	Billing Units	Monthly Charge Rate
Residential Users		
Single-family	DU	\$ 52.77

Multiple-family	DU	\$ 39.58
Commercial Users		
Auto Steam Cleaning	Ccf	\$ 12.93
Bakeries	Ccf	\$ 9.46
Commercial Laundries	Ccf	\$ 5.85
Grocery with garbage/disposal	Ccf	\$ 10.14
Mortuaries	Ccf	\$ 9.24
Restaurants	Ccf	\$ 11.62
All Other	Ccf	\$ 4.82
Institutional Users		
Schools	Ccf	\$ 5.14
All Other	Ccf	\$ 3.74

PASSED AND ADOPTED at a regular meeting of the Pinole City Council held on the 21st day of July 2009, by the following vote:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

ABSTAIN: COUNCILMEMBERS:

Patricia Athenour, CMC
City Clerk

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