

Restudying Beach Sewer Rates

July 1, 2011 – December 15, 2011

Mayor Vick, fellow Council members and members of the public . The challenged to restudy the Beach sewers rates presented us on July 9 has been completed. We are ready to make a recommendation to the Council We have prepared a presentation for you , the audience and viewing public that explains the process we used and the details considered. The group got its marching orders on July 9 and held the first meeting a week later. First, our purpose tonight.

Our purpose tonight

- ▶ Present the work of the group
 - Collected a group of knowledgeable contributors
 - Studied current data and circumstances
 - Constructed a process
 - Restudied and reconstructed approved Beach rates using a zero-based approach
 - Look beyond the present rate case ending in June 2014
 - Agreed-upon recommendation to the city Council

Let me quickly review the path we took to meet the challenge offered us and how we chose to meet it. First, the group looked at what had to be done to repair our infrastructure. Then we studied current circumstances, keeping in mind the present economic and environmental situation. Next, applying our findings to the approved rates and the effects on the five years beyond that, we were able to establish a plan to present to the city Council tonight.

A Bit of History

- ▶ Decades of infrastructure neglect
- ▶ At least 36 years of financial neglect
- ▶ A second wastewater treatment added 2006
- ▶ Hitting the wall in 2009
- ▶ Proposition 218
- ▶ Measure A

The area served by the beach wastewater disposal plant has suffered decades of neglect. In addition, the City suffered at least 36 years of financial neglect. A reliable local historian attended a meeting of the Council in August of 1975 where the main attraction was a tiny increase in sewer rates and Council rejected it. In 2006 a second wastewater treatment plant was added to accommodate the city's first large housing development. At that time, rates were not sufficient to pay the cost of operating the plant. And in a few short years a large debt accumulated in the sewer fund, so in 2009 we hit the proverbial wall. The City had borrowed from all other available funds and there was no place to turn except insolvency or perhaps bankruptcy. There were no longer options and sewer rates had to be raised. Proposition 218 required a vote of parcel owners to approve a sewer increase. The parcel owners agreed, but a very expensive initiative, called Measure A, followed but it failed. That brings us to tonight – 2 + years deep into our first five-year rate case.

Council resolution and directive

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Rio Vista that the Beach Facility rate increase identified in Ordinance No. 644, and scheduled to take effect on July 1, 2011 is hereby suspended. . . subject to the conditions of this resolution. . . . Suspension shall remain in effect until either (1) December 31, 2011; or (2) further action by the City Council superseding this Resolution, whichever occurs first.

The mayor then appointed me in accordance with the staff report to form a group to study the Beach Facility sewer rates as recommended in the staff report, submitted on the subject

This is the important part of the resolution to which the group responded. You will note I have removed all of the whereas clauses and included only the important part. In accordance with the staff report, the mayor then appointed me to form a group to study the Beach Facility sewer rates.

Just Two Parts

- 1) Suspend July 1, 2011 Beach sewer rate increase for 6 months.
- 2) Then the mayor directed me to convene a group to restudy the beach sewer rates using a zero-based approach.

There were but two parts to the job we undertook. The first part, suspended the rate increase scheduled for six months. The second part directed us to use a zero based approach to conduct a complete restudy of the Beach rates. Some might ask, "What is zero based."

“Zero Based” defined:

- All monetary values stated in 2011- 12 dollars
- CIPs identified and prioritized to today’s needs
- All maintenance and repairs assessed and updated
- State mandates assessed and updated
- Current ratepayers numbers validated
- City budget allocations included (first time)

To make certain we are all on the same page regarding “zero based” here is the group’s definition. FY 2011 – 12 dollar values were assigned to all of the cost elements. The capital improvement projects (CIPs) were restudied and reordered, first, to accommodate any changes in priorities caused by unforeseen problems when the approved rates were set. An example of this was the failure of the Edgewater sewer which has now been replaced. This project was never considered in setting the current rates. Many of the maintenance tasks, as well as minor repairs were realigned based on need.

A number of state mandates not considered in setting the rates currently in effect needed adding to current costs. The most comprehensive of these is a more in-depth understanding of the SSMP cost since the completion of the engineering study.

This plan has been recently completed by our consultant, Stantec, Inc.. This directive from the state requires all cities to clean, inspect with closed circuit TV and maintain all mains and laterals. I will discuss more about this at a later time. Another mandate not considered in the current rates is **additional studies**. This consists of special sampling and analysis of wastewater to help in preparation for periodic recertifications.

A current count of the Beach ratepayers was needed. The number of ratepayers varies daily with new accounts move in and move out.

During the budgeting process for fiscal year 2011 – 12, following provisions of law, the finance manager, undertook to allocate departmental expenses dedicated specifically to each of our enterprise funds. This allocation included salaries, benefits and shared services that specifically provided direct and indirect support. These expenses were not considered when setting the current rate structure. You will see later in the presentation how three things had profound effect on the current situation. First, there were additional mandates. Next, assigning costs where they belong and to a lesser but significant extent, a smaller number of ratepayers.

A Third Part

- ▶ The group, by consensus, added a third task at its first meeting. With current data at hand, extend the study through the five years beginning July 1, 2014, and to include any information pertinent to connecting our two sewer plants.

I mentioned the Council gave us two tasks, but we saw the opportunity to add a third.

The group chose, by consensus, to add a third task. With current data at hand, we agreed to extend the study beyond the years of the approved rates, which end June 30, 2014. We further agreed to collect any information pertinent to connecting our two sewer facilities. This begins with an engineering study to close the Beach Facility and move all wastewater to the NW Treatment Facility.

The Restudy Group

- ▶ Representing the City
 - City Manager, Director of Public Works, City Engineer
- ▶ Representing Veolia
 - Manager, City wastewater facilities & Project Manager

I would like to take just a few moments to present the individuals who were involved in this restudy and who spent many hundreds of hours in service to the city.

- Representing the city was Mr. De La Rosa, our city manager who holds a bachelor's degree in Finance from San Jose State.
- Our director of public works, Dave Melilli, in his second stint with the city is a graduate of Cal Poly, Pomona. His degree is in Parks and Public Administration.
- Mr. Cecil Dillon is a registered Professional Engineer with the state of California and has been our city engineer for over 20 years. He holds a degree in Civil Engineering from San Jose State.
- Representing Veolia is Project Manager Chris McAuliffe. In addition to his BS from Oregon State he has 30 years wastewater experience and a Grade 5 Wastewater certificate.
- Also representing Veolia is Plant Manager, Brian Exberger, a graduate of Humboldt State with a BS in Engineering who also holds a Grade 5 wastewater certification.

The Restudy Group

- ▶ Representing Wastewater Monitoring Committee
 - Vice Chairman and Chairman of Finance Subcommittee

- Representing the Citizens Committee Monitoring Water and Wastewater Enterprise Funds are **Dan Azarnoff** and **PC Kumar**. **Dr. Dan** received a BS and MS from Rutgers Univ. and received his MD from Kansas University where he retired as Distinguished Professor. During his career he had executive management experience in the biomedical field. He is Vice Chairman of the Citizens Committee for Monitoring Water and Wastewater Enterprise Funds.
- **Dr. P. C. Kumar** is a retired Professor Emeritus from American University in Washington, D.C. He has bachelor's degrees in Chemistry and Electrical Engineering, an MBA and a PhD from Penn State in Finance and Economics. He is chair of the finance subgroup of the Monitoring Committee.

The Restudy Group

- ▶ Representing the Public
 - Four persons with expert knowledge to contribute
- ▶ Representing the City Council
 - Vice Mayor and one Council person

Representing the public are four persons with expert knowledge to contribute to the restudy process.

- First, is **Ron Jones**. Ron is a U S Navy veteran, who spent 30 years with the Los Altos Police Department, retiring as chief. He is an eight-year member of the City Council, twice serving as vice mayor.
- **Tim Kubli** pursued a lifetime career in the banking industry from which he retired last year as president of the Bank of Rio Vista. He earned his BS in Business Administration from Linfield College in Oregon.
- **Thomas Jue.**, is a graduate of Cal State Hayward in Business Administration with an accounting emphasis. He is an expert in creating process efficiency. Tom is chairman of the Monitoring Committee and he is a certified public accountant.
- Last of this group is **Jim Larsen**. Mr. Larsen had a long and distinguished business and government career which ended as Postmaster, San Francisco. Prior to that, he had been responsible for all mail operations in the 13 Western states. Jim earned a BS from the University of Cincinnati with high honors while completing a double major in Math and Physics. He is a registered Professional Engineer in Ohio. Jim is one of our two modelers. In the past five and one-half months, he has logged hundreds of hours while researching, verifying, checking, rechecking and entering data. This proves the old saw, last is not necessarily least.
- Representing the Council is **Fred Kogler**, a long time resident in Rio Vista. He and his family have lived here 27 years. He was elected to the City Council in 2010. Fred, a 12 year Navy veteran and former local entrepreneur, works in research and development for a prominent local manufacturer.

Restudy Group Organization

▶ Subgroups

- City data and records – City staff
- Finance and Econometrics – three public members
- CIP, Repairs and Maintenance – Public works, City engineer and Veolia management

We divided ourselves into small working units. The first was a group of city employees. The group included the city manager, the finance manager and the director of public works. Their task was not an easy one. This group collected all current data needed to populate the models with total costs. As this was a zero-based exercise, current operating, rather than historical, documents were needed.

The next group's responsibility was to research and collect information from current resources regarding inflation. The members of this group are PC Kumar, Tim Kubli and Ron Jones.

The third group was responsible for determining the remaining capital improvement projects, repairs and maintenance, and providing information from the city budget regarding the Beach sewer fund. Members of this group were Cecil Dillon, David Melilli, Chris McAuliffe and Brian Exberger.

Restudy group organization

▶ Subgroups

- Communications – Vice Chair Monitoring Committee and PR volunteers
- Validate and Assess Model Results – City Manager, one Monitoring Committee member and one public member

Dan Azarnoff headed up the communications group whose job it was to report weekly to the local newspapers concerning the progress of the group and advertising the meeting schedules. Each announcement was accompanied with an appeal for public attendance and input. A very small group of public members attended regularly and an even smaller number came once or twice.

The last subgroup's responsibility was to validate and assess model results. This task fell to the city manager attending the Wildan Financial Services Model and Jim Larsen attending the private model. While Mr. Jue missed most of the meetings because of a difficult work assignment in San Francisco, he was in constant contact with Mr. Larsen and/or the CM.

The Restudy Process

Step 0: We met to organize.

We spent our first meeting getting organized.

The Restudy Process

Step 1: The CIP/ Maintenance subgroup identified, prioritized estimated costs and scheduled all know remaining CIPs.

Step 1: Mr. Dillon, Mr. McAuliffe, and Mr. Melilli listed and prioritized all capital improvement projects needed to be completed by the end of this rate case. To that list they added all of the foreseeable capital improvement projects required for the next five years. They prioritized the list, the group discussed the list and suggested several modification.

I want to pause for a moment to make sure that all of our viewers understand the terminology “current rate case.” This is the five-year plan adopted by the Council and accepted by the Beach parcel owners and validated by defeating Measure A.

The Restudy Process

Step 2: Whole group reviewed and accepted zero based schedule.

With their preliminary list completed, the entire group reviewed and submitted, after discussion, some modifications. The subgroup retired to incorporate whatever agreed-upon modifications were necessary. Then the entire group accepted the prioritized the list along with estimates of the cost in fiscal year 2011 – 12 dollars.

The Restudy Process

Step 3: Gain understanding of SSMP processes and other mandated costs.

Earlier, I promised to tell you more about the Sanitary Sewer Management Plan (SSMP).

The SSMP requires on a continuing basis that the city must clean and inspect with closed-circuit television all mains and laterals throughout the city. Any repairs needed to protect the health and safety of our citizens, as well as the environment, are required to be done forthwith.

Areas noted to be potential for future failure must be noted and scheduled for repair or replacement as necessary. To do this for the entire city takes 168 days just for the evacuation and TV inspection. The prudent plan includes addressing the older parts of the city first as this would be the place we would expect to find the most deterioration and infrastructure needing repair. Trilogy, Homecoming, and Vineyard Bluffs, may require some repair but certainly much less.

As one can see, predicting the extent of the damage lines needing repair for Beach users is a most difficult chore. Significant questions arise immediately.

- “How many feet of mains and laterals will need to be repaired or replaced”?
- “How do we know how much it will cost to make the repairs”?

To answer these questions, Veolia provided an executive from an affiliated company to present in detail, exactly what we were dealing with in identifying and repairing our aging collection system. He showed us the process for dealing with repairs and replacement. He shared with us how to estimate the extent of needed repair and replacement; and finally, the way to estimate the cost.

To estimate the cost required by the SSMP, we used experience rates provided by our Veolia expert. As one quickly sees, we will only know our total exposure once we have

The Restudy Process

Step 4: Study and apply cost escalators for various categories and elements.

Very early in the process, the group tasked to forecast inflation rates undertook some research to see if any trend was evident with inflation following a recession. Research of inflationary trends, following a recession was inconclusive. The subgroup turned instead to two important resources.

The first is the CPI-W data published by the US Bureau of Labor Statistics. This is the one used to calculate the cost of living adjustment for Social Security and other indices tied to the CPI. They also used information from the Engineering News Record Construction Cost Index.

We did not use a single inflation factor as done in the current rate case. Instead, we segmented the various elements and applied our research by individual classification by year.

The Restudy Process

Step 5: Begin populating models to establish zero based effects on current rates and rates for next rate case.

Around the middle of September, although data was still incomplete, the modelers, **Mr. De la Rosa** and **Mr. Larsen** began to populate their separate models. When sufficient data were available, they began to compare cost accumulations and total revenue needed to meet the total obligation of the Beach system.

You may be asking how we got to the numbers we were using. Here's how. Go to the City Website. Scroll down the list on the left side of the screen to Water and Sewer. It opens to 12 files, which contain all the backup, in detail, for the data used in the restudy.

As the models two accumulate data differently, it takes many comparisons to finally make certain that all costs are included in both models and the projected revenue requirements match. It was during this period that all Beach expenses were accumulated, adjusted for anticipated inflation and spread throughout both models. For the 8 years of data we accumulated for this restudy, the models were identical in total revenue required for all 8 years. And the rates generated for single-family residential units matched to the penny 7 of the 8 years. In the 8th year, they were off by 1 cent.

Rate factors

- ▶ Contracted operating costs – Veolia

It is important to understand the factors that go into, or make up, the rates. The city contracts with Veolia to operate and maintain our two wastewater facilities, as well as operate and maintain the lift stations. As you will see in a few moments, payments to them comprise a major portion of our expense. The contract covers the costs and benefits of all employees and much of the routine maintenance of the facilities.

Rate factors

- ▶ The cost of maintaining the mains, laterals and lift stations (Beach) – the collection system (City)

From your property line to the Beach wastewater facility, it is the city's responsibility to maintain, replace and repair the collection system. Right now this is especially costly.

Primarily, this is due to a lack of attention to upkeep of an aging system for many decades. And as I have already explained, the SSMP adds additional cost. The SSMP plan not only requires we do it, but requires we show how we plan to pay for it.

Unfortunately, not all our sewage drains by gravity. Therefore, we have to maintain a series of lift stations. These lift stations must operate 24/7 and need standby generators to ensure this capability. They require periodic inspection and maintenance.

Rate factors

- ▶ Government mandates
 - Periodic certification and permits
 - Sanitary Sewer Management Plan (SSMP)
 - Testing, reporting, upgrading etc.

In addition to state requirements already mentioned, all wastewater facilities require relicensing every five years. This is an expensive proposition and depending upon required changes that must be accommodated, it can cost over \$200,000. In addition to these relicensing costs, there are annual inspection, reporting and upgrading costs.

Rate factors

- ▶ Capital Improvement Projects
 - Collection systems
 - Lift stations
 - Wastewater plants

Capital improvement projects (CIPs) continue to be the largest portion of operating the sewer facility on Beach Drive.

There are three specifically identified sewer collection projects planned for fiscal years 2011 – 2014. In addition, funding for anticipated critical replacements identified by the CCTV effort are included. Provision for near-term repairs is included in our cost build up. Both the Marina and the River Road lift stations need to be upgraded for current needs and designed for future roles in the combining of the two wastewater facilities.

Rate factors

- ▶ Debt service
 - Bonds from year 2000
 - Repayment of new financing

In year 2000, the city sold bonds to make repairs to the Beach plant. The annual debt service is just over \$100,000 per year and there are 19 years remaining.

In addition, the plan we recommend to the city tonight will require a small amount of financing. It will be short-term with a five-year payback.

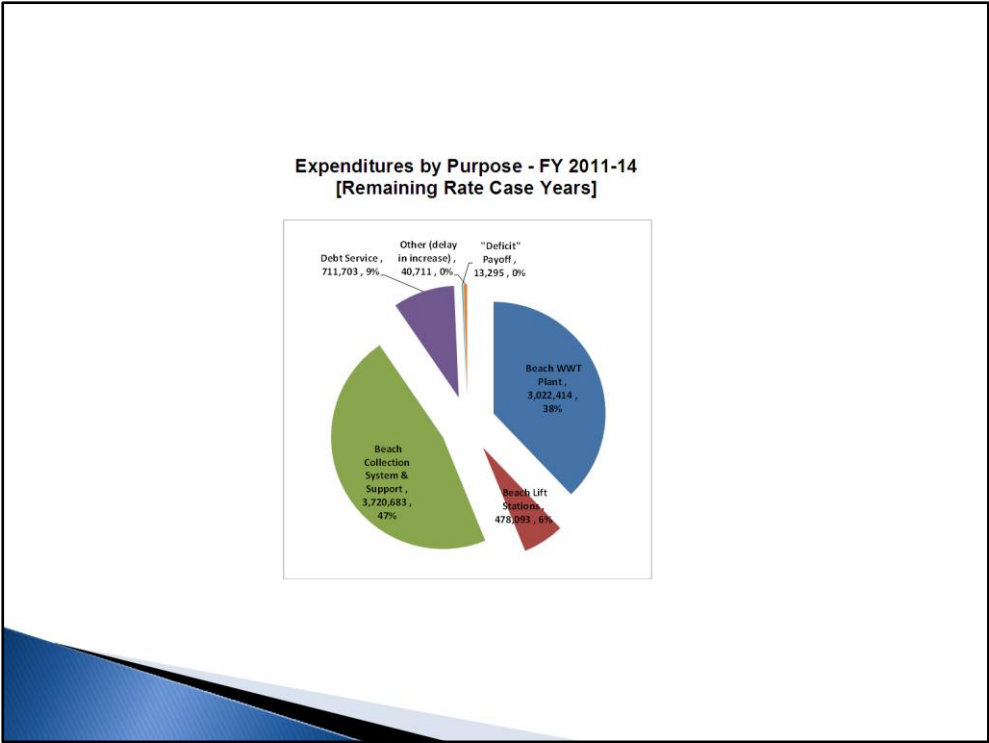
At present, there is a preapproved loan from the state with a 2.6% interest rate. Even if we were to get a final approval, the timing might not work out. In the event the state loan is not available for some reason, we would turn to the market to find financing elsewhere. While the interest rate would likely be higher, it would have only a small effect.

Rate factors

- ▶ Unplanned repairs

Finally, there are unplanned repairs. In the current rate case, \$100,000 per year was set aside for these repairs. The last two years were budgeted at \$50,000 each. We spent over \$100,000 each in the first two years and we are on track to spend over \$150,000 this year.

Going forward, we can expect these amounts to diminish as more and more of our infrastructure is repaired.



This segmented pie chart shows how the expensed are distributed for the remaining years of the rate case based on the restudy of the rates.

The green portion depicts expenses on the Beach collection system and support. As you see it is 47% of the total.

The blue portion is the expenses the Beach Wastewater Treatment Plant. These two total 85% of the expenses.

Purple is debt service at 9% and the final 6% is for Beach lift stations.

The two tiny slivers at the top represent a small surplus in the third year.

The slightly larger piece is the \$40,000 lost to revenue be suspending the July 1 rate increase for 6 months.

The next slide shows the Grant total. Let's look.

Revenue Required

- ▶ Zero-based expenses for the last three years of the current rate case totaled just over \$7.5 million
- ▶ Approved rates factored against the current ratepayers for the last three years of the current rate case totaled just over \$7.25 million
- ▶ Deficit remaining: approximately \$250,000

In order to live within the approved existing rates, we needed to determine the funding required by the zero-based effort. For the remainder of the current rate case, the zero-based expenses require \$7.5 million dollars. For the same period, the rate payers' revenue will total \$7.25 million, leaving a deficit of approximately \$250,000.

In order not exceed the approved rates for the next two and half years of the rate case, the city needs to secure a loan of \$650,000. This fiscal year requires we borrow just over \$400,000 and next fiscal year just over 250,000. In the last fiscal year of the current rate case, the revenue produces a surplus, which will be applied against debt reduction.

More about the loan...

- ▶ New State mandates – SSMP others
- ▶ Budgeted city costs not included in current rates.
- ▶ Fewer ratepayers using Beach facility

Many of you may be asking, why we really need to secure a loan. To reiterate, these are three factors that cause us to need this short-term financial commitment.

The state mandates, especially SSMP, and others

As I explained earlier, the accounting manager, utilizing accepted accounting practices allocated all expenses associated with the Beach Facility to the sewer fund rather than the general fund, where they had been accumulated previously. This is a significant number - about \$370,000.

And finally, the 3.34% reduction in the number of Beach rate payers.

Taken in total, this raised our total expense for the remaining two and one half years to require borrowing \$650,000.

The Restudy Process

Step 6: Make a recommendation to City Council

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I believe most, if not all, our group undertook this project with the hope of lowering the rates for the remainder of the rate case. My personal hope was that the economy would have the same effect on the rates that it had on some capital improvement projects we had completed in the first 2 ½ years.

We saw during that time, savings of several hundred thousand dollars. Certainly not the million dollars we had hoped might be saved, but still a substantial amount. Whatever saving was created in the CIPs came from contractor's forgone profits and their accepting greater risk on contingencies. One successful contractor told us he took the job below cost in order to keep his crew together.

Our recommendation

1. Take no action pursuant to resolution Number 644
2. Take no action regarding the approved rates
3. Pursue a loan in the amount of \$650,000 borrowed over a period of two years, 2011 - 12 & 2012- 13 with repayment over a period of five years

The effect:

- ✓ Beach rates will hold flat for the next five years through June 30, 2019
- ✓ Ability to complete all CIP's presently identified
- ✓ Just over \$1 million accumulated for debt retirement

First, take no action on resolution Number 644.

Second, take no action regarding the approved rates.

Third, make a loan in the amount of approximately \$650,000 to cover expenses in this and the next fiscal years.

Accepting these recommendations provide the following benefits:

- Beach rates will not exceed those of June 30, 2014, through the following five years, ending June 30, 2019.
- During that time we will have completed all of the presently known, and SSMP identified, capital improvement projects
- And we will have accumulated just over \$1 million, which barring any other unforeseen cost, can be attributed to debt retirement owing other City funds by the Beach Sewer Fund. This debt is about \$1.5 million.

The bigger picture...

Rio Vista will have a sound infrastructure and will have paved the way for the next big step:

Combining Rio Vista's two wastewater facilities into the Northwest Wastewater Treatment Facility

- Update: memorandum from Stantec regarding approach and estimated cost

Look what we will have done. We will have repaired and/or replaced the aging infrastructure in the old part of the city. Having accomplished this, we are ready to tackle the final problem – getting to a single wastewater facility. I will close this portion of the presentation with a bit of exciting news:

Stantec, Incorporated has agreed, for a nominal sum, to provide us with a memo, not an engineering study, but a plan to combine our two facilities including an estimate of cost.

At this time, I'd like to ask the Mayor and City Council if they have any questions or comments...