

City Clerk Date Stamp

City of El Cajon



MEETING: Nov. 8, 2011

ITEM NO: _____

Agenda Report

DATE: October 27, 2011

TO: Mayor Lewis, Mayor Pro Tem McClellan,
Councilmembers Hanson-Cox, Kendrick, and Wells

FROM: Acting Director of Public Works/Acting City Engineer

SUBJECT: Wastewater Fund Sewer Service Rate Increase

RECOMMENDATION: That the City Council:

- Open the Public Hearing and receive testimony;
- Close the Public Hearing;
- Certify that the written protests received do not make up a majority of property owners in accordance with Proposition 218; and
- Adopt the next RESOLUTION in order to approve the new sewer rates to commence on January 1, 2012, with four future modifications effective July 1 of 2013, 2014, 2015, and 2016.

PROPOSITION 218 REQUIREMENTS:

In accordance with Proposition 218, all properties in El Cajon (20,768) were sent a Notice of Public Hearing on September 2, 2011. At the time of this report 107 written notices of protest have been received (copies attached). The City Clerk will make a final count of protest letters at the close of the Public hearing. A majority of property owners would be 10,385 or greater.

BACKGROUND:

The City of El Cajon currently bills approximately 16,240 wastewater accounts (13,340 single family residential, 1,500 multi-family residential, and 1,400 commercial). The accounts are grouped into ten different user types with a corresponding rate for each user type. The current rates were effective on December 1, 1999, and reflected the cost of service for each user type at that time. The City has not adjusted any of these rates since that date, twelve years ago.

The current rates consist of two charges, which are billed bi-monthly. Each wastewater account pays a flat monthly rate designed to recoup the City's cost for Federal and State mandated NPDES (National Pollution Discharge Elimination System) activities. Wastewater customers also pay a volumetric charge based upon water usage. The City computes the volumetric charge for single family residences using the average of two winter billing cycles, which eliminates most of the irrigation water consumption. All other wastewater customer types pay a volumetric charge based upon water usage during the billing period.

These charges for service currently generate about \$11.1 million in annual revenue. This revenue, along with about \$300,000 in interest earnings and other miscellaneous income, pay for three (3) types of activities each year:

- **Wastewater Transportation and Treatment Costs** – The City of El Cajon pays the City of San Diego to transport El Cajon wastewater through the San Diego collection system to the Point Loma treatment facility. El Cajon also pays San Diego to treat and dispose of the wastewater in accordance with Federal, State, and local laws. These costs currently average about \$9.0 million per year.
- **Other Wastewater Operating Costs** – Each year the City of El Cajon expends funds to operate and maintain the wastewater collection systems owned by El Cajon. These expenses also cover such things as customer billing and NPDES expenses. In recent fiscal years these costs totaled about \$5.7 million annually.
- **Capital Maintenance & Replacement** – The capital needs of the City of El Cajon collection systems total about \$2.5 million each year. Staff uses these funds to perform major repairs and replace portions of our aging wastewater collection system. These funds also pay for upgrades to our citywide master plans.

Discussion:

During the late 1990's and for the first few years after the 1999 rate increase, wastewater revenues exceeded expenses. During these years, the City performed only minimal capital improvements to the wastewater system, averaging considerably less than \$1 million per year in capital repair projects. The fund balance in the Wastewater Enterprise Fund increased during these years, peaking in 2005 with an undesignated fund balance of \$16.2 million.

Starting in 2005 and continuing to this day, several factors have combined to cause wastewater expenses to exceed revenues. Our wastewater revenues fell as the local water purveyors successfully implemented aggressive water conservation programs.

Investment income eroded as interest rates declined and as fund balance diminished. Inflationary pressures steadily increased our costs for maintaining the local wastewater collection systems, as well as the cost of reimbursing San Diego for sewage transportation and treatment expenses. NPDES expenses sky-rocketed as State environmental regulations continually tightened. Due to these factors, by FY 2010-11 annual wastewater operating expenses exceeded operating revenues by about \$3.1 million. Since 2005, the City has, out of necessity, increased the capital expenditures on the wastewater system to an average of \$1.6 million per year. The operating shortfalls, combined with increased capital costs, have caused the undesignated fund balance to decline to an estimated \$9.3 million as of June 30, 2011. If the City fully executes the adopted FY 2011-12 capital budget, the undesignated fund balance will fall to about \$2.8 million by June 30, 2012.

Looking forward, inflation will continue to increase the cost of operating and maintaining our wastewater collection system. NPDES costs will continue to rise. Even if the City Council chose to completely discontinue its wastewater capital improvement program, the annual operating shortfalls will cause the City to consume the remaining available fund balance by 2014.

Far from discontinuing the wastewater capital program, the City needs to increase its annual funding level to \$2.5 million per year. Our collection systems continue to age. Portions of it are now more than fifty years old. This aging process, combined with years of minimal capital maintenance, have caused many deficiencies to go uncorrected. In the past two years, the City has suffered two major sinkholes (one in the middle of Fanita Drive and one in a residential back yard) and several minor ones from failed pipes. Television inspections of several other collection pipelines indicate more such problems are imminent, unless the pipes are repaired. In December 2010, the City spilled over 100,000 gallons of raw sewage onto Fletcher Parkway and Johnson Avenue from a trunk sewer that was undersized for the heavy flow occurring during a rainstorm. Failure to correct these and other potentially large problems in a timely fashion will expose the City to both liability costs and environmental enforcement action.

Two future very large, extraordinary expenses bear mentioning. First, correcting the undersized trunk sewer line in Johnson Avenue will require the construction of a much larger line at an estimated cost of \$9 million. Since a project of this size would consume the capital budget for several years, staff proposes to fund this project in FY 2012-13 through a loan from the State Revolving Fund. This will necessitate repaying the loan over twenty years. The debt service payments for this project have been factored into the proposed rates. Second, several years ago the City of San Diego made a large claim against the City of El Cajon for capital costs they incurred to facilitate the flow of El Cajon sewage through the San Diego system to the Point Loma treatment facility.

San Diego has indicated they will require settlement of this claim prior to renewing our sewage transportation agreement with them. El Cajon currently has about \$11 million reserved to settle this claim. The new proposed rates assume El Cajon will finance this payment over ten years, which allows the proposed rate increases to be lower and spread out over several years.

In June 2011, the City hired Camp, Dresser, & McKee (CDM) to analyze all of the applicable financial factors and to recommend a series of wastewater rate increases to insure the physical and financial integrity of the system for the next six (6) years. Their report is attached to this staff report. CDM has recommended a 33% rate increase, effective January 1, 2012, followed by four (4) additional 9% rate increases on July 1 of 2013, 2014, 2015, and 2016. The proposed rate increases would be applied to both the fixed NPDES charge and the volumetric wastewater charge as shown in Table 1. It is also recommend to apply the NPDES fixed charge to multi-family units at a rate of 50% of the single family rate.

Obviously these proposed rate increases are large, with the compounded effect of the five (5) proposed increases totaling about 88%. Much of this increase will go towards catching up for inflationary cost increases during the twelve years the City did not raise rates. The consumer price index for San Diego rose about 48% during this period. The proposed new rates will also cover the expected 3% per year of cost increases over the next five (5) years (16% compounded). The proposed rate increases will pay for increasing the capital program from less than \$1 million per year to \$2.5 million annually, plus pay the annual debt service payments for the extraordinary project to replace the Johnson Avenue trunk sewer. These proposed increases in capital costs equate to a 20% increase over the current annual revenue. Finally, the proposed increases will allow the Wastewater Enterprise Fund to maintain a reserve adequate to handle most emergency repairs.

As part of these proposed rate changes, staff recommends that the City eliminate the current minimum charge of \$24.23 per month for single family residences. This will result in lower bills for those accounts that use very little water during the winter sampling period. The single family residential rate will continue to have a maximum bill amount based on 42 hcf/bi-monthly water use. The sewer service rate for septic haulers would be increased at the same 33% increase in January of 2012 and then adjusted based on actual treatment costs in future years. The current rate of \$5.19 per 100 gallons would increase to \$7.04 per 100 gallons.

It is worth noting that the City of El Cajon currently has by far the lowest wastewater rates of the comparable cities and special districts in San Diego County. Even if the other entities do not raise their rates over the next five (5) years, which is unlikely, the proposed compounded 88% rate increase will still leave El Cajon only a few dollars per-

month above the average (\$48.31 versus \$45.25) of the rates these other agencies charge. Tables 2 and 3 show these rate comparisons.

In the absence of more than 50% of the property owners protesting the rate increases, staff recommends the City Council vote to adopt the new rates.

Failure to enact these proposed rate increases would bring on some dire consequences. The City would need to immediately eliminate the entire wastewater capital improvement program. Given the age and condition of our collections systems, major failures would shortly follow. We would also need to reduce the annual operating and maintenance budget by over \$3 million per year. Since the majority of these operating expenses go towards paying San Diego to transport and treat our sewage, the \$3 million in cuts would effectively eliminate almost all local maintenance of the City of El Cajon collection systems, as well as our NPDES programs, including street sweeping. State regulatory enforcement action against the City would likely follow.

FISCAL IMPACTS: The proposed new rates would raise annual revenue for the Wastewater Enterprise Fund by an estimated \$1.8 million in FY 2012, \$1.9 million in FY 2013, \$1.4 million in FY 2014, \$1.5 million in FY 2015, \$1.6 million in FY 2016, and \$1.8 million in FY 2017.

PREPARED BY:

APPROVED BY:

Michael S. Griffiths
ACTING DIRECTOR OF PUBLIC WORKS
ACTING CITY ENGINEER

Rob Turner
ACTING CITY MANAGER

Attachments

TABLE 2
Cost Comparison with Local Agencies after 33% Increase

Agency Name	Single-Family Rate*	Comments
El Cajon	\$25.13	Current Rate
Otay Water District	\$30.40	Current Rate
Coronado	\$31.64	Current Rate
National City	\$32.08	Current Rate
El Cajon	\$34.21	Proposed Rate 2012
Imperial Beach	\$36.76	Current Rate
Chula Vista	\$39.25	Current Rate
La Mesa	\$39.42	Current Rate
Poway	\$41.35	Current Rate
Lemon Grove	\$41.69	Current Rate
San Diego	\$52.58	Current Rate
Padre Dam MWD	\$57.02	Current Rate
Del Mar	\$92.49	Current Rate

*Monthly Costs Based on Average City of El Cajon Water Use
9.5 HCF per month or 236 Gallons per Day

