

# Sewer Service Fund Performance Audit

Fiscal Year 2023/24

## Introduction

Per Chapter 14.54 Sewer Service User Charge of the *Huntington Beach Municipal Code* (HBMC), the Sewer Service Fund shall be subject to an annual review and performance audit by the Public Works Commission.

On September 4, 2001, the Huntington Beach City Council adopted a Sewer Service User Charge and established the Sewer Service Fund per HBMC Section 14.54.050 Sewer Service Fund. Pursuant to *California Health and Safety Code Section 5470 et seq.*, the City of Huntington Beach (City) is authorized to adopt fees and charges for the acquisition, construction, reconstruction, maintenance, and operation of sewerage facilities.

The Sewer Service Fund is an enterprise fund that provides for the operations, maintenance and capital needs of the City's sanitary sewer system. The funds come from user fees charged to residents and businesses and are restricted for these uses. Fees are set in accordance with Proposition 218, which was enacted in 1996 to ensure that rates and fees are reasonable and proportional to the cost of providing service.

The information presented in this report complies with the requirements outlined in Section 14.54.070 Annual Program Review of the HBMC.

## Operations and Maintenance Program

Operations and maintenance of the sanitary sewer system within the public right-of-way is the responsibility of the Department of Public Works, Utilities Division.

The City's wastewater collection system consists of approximately 360 miles of City-owned sewer lines and 27 sewer lift stations, which transport a combined, estimated 20.3 million gallons of wastewater each day.

Wastewater Section Personnel utilize the City of Huntington Beach Sewer System Management Plan (SSMP) to effectively operate, maintain, and manage the City's wastewater collection system. The SSMP helps the City ensure compliance with the State Water Board (Board) Water Quality Order 2006-0003-DWQ Statewide Waste Discharge Requirements for Sanitary Sewer Systems (Order). To monitor and measure effectiveness, the SSMP establishes performance measures with a goal of zero sanitary sewer overflows (SSOs). These measures have been included in this audit.

Regarding programming, the following programmatic elements are included in the latest SSMP Update adopted by the City Council on March 15, 2022:

- **Mapping:** The City of Huntington Beach currently utilizes a Geographic Information System (GIS) based mapping system for its sanitary sewer system. GIS information regarding sewer pipelines and manholes is continuously maintained to ensure compliance with Government Accounting Standards (GASB) 34 requirements.

- Line Cleaning: The majority of the City's sewer system is proactively cleaned with all gravity sewer pipe segments routinely cleaned and serviced every two (2) years. Even with a regular cleaning schedule, some location may still develop problems. These locations are placed on an "enhanced cleaning" location list and are cleaned more frequently. The City currently has 235 enhanced cleaning locations and assigns two (2) full-time employees to their maintenance.
- Lift Station Maintenance: The City's 27 sewer lift stations are generally reliable. To maintain their reliability, the City performs preventative maintenance on daily, monthly, quarterly, and yearly schedules. Lift stations are inspected weekly at a minimum. This includes visual inspection of all lift stations, exercising of valves and replacement of worn parts. Wet Wells are typically pumped down and cleaned at least four (4) times per year, or more often if necessary to prevent solids and grease build up. Inspection of pumps (submersible and dry) and impellers are typically performed quarterly but may be adjusted depending on pump motor hours. Inspection and exercising of all gate and check valves are also performed quarterly to ensure proper working order.
- Manhole Monitoring System: 27 Smart Covers with sensor technology are installed at strategic locations in the sewer system pipelines to generate an alert with any potential capacity constraint in manholes with potential for vandalism or illegal dumping. Maintenance is performed on an annual basis and involves inspection of the unit and replacement of the battery. Defective units are replaced and/or repaired on an as-needed basis.
- Closed Circuit Television (CCTV) Program: The City is in the third year of a five-year program to CCTV its entire system via Contractors, with the long-term goal of updating the Citywide CCTV inspections every 5-10 years. Based upon these CCTV inspections and evaluations, routine maintenance is tailored to meet the actual needs of the system including updating the City's capital improvement program (CIP) for system rehabilitation and replacement.
- Sewer Lateral Program: Per Section 14.54.035 Maintenance and Repair of the Huntington Beach Municipal Code, *"the City will pay the cost of repair and maintenance of all lateral lines from the City-owned sewer main through the public right-of-way to the private property line."*

The Sewer Lateral Program was added effective January 3, 2008, and the sewer service charge was adjusted to cover the projected expenses. The program transferred the responsibility to the City for sewer lateral repairs within the public right-of-way. Initially, the cost of the program exceeded the additional revenue generated by the adjustment to the Sewer Service User Charge; however, costs for this program have decreased significantly since its inception.

Routine preventative maintenance, along with any needed corrective and/or emergency repairs are normally completed within the allotted budget.

For declared emergency and/or disaster events, emergency construction contracts, purchases, and/or procurements may be made under Section 3.02.190 Exempt and Emergency

Procurements of the HBMC as needed to preserve the health, safety, life, or property of City residents, businesses and the public. Expenditures above and beyond budgeted amounts may require drawdown of reserves.

### **Sewer Service Fund Reserve Policy**

The City Council adopted a Reserve Policy for enterprise funds in Fiscal Year (FY) 2014/15. The reserve policy for the Sewer Service Fund states that the City will maintain a reserve equal to the sum of the following:

- Operations and Maintenance: Thirty-three percent (33%) of the adopted annual budget to ensure adequate working capital for operating expenses. For FY 2023/24, this amount is \$3.5 million.
- CIP: One hundred percent (100%) of the average annual planned CIP for the following five (5) years. For FY 2023/24, this amount is \$3.6 million.
- Emergency: An amount equal to the estimated cost, as determined by the City Engineer, to replace one (1) sewer lift station. For FY 2023/24, this amount is \$4.5 million.

Based on the amounts above, the total reserve requirement for FY 2023/24 equals \$11.6 million.

### **Capital Improvement Program**

A capital improvement is the addition of a permanent structure, change or restoration of infrastructure that will enhance its overall value, prolong its useful life, or create new uses.

In general, the City's CIP includes new projects and upgrades to existing facilities of \$50,000 or more, and is adopted annually in conjunction with the City Budget. The primary funding source for sewer-related capital projects is the Sewer Service Fund.

Typical sewer CIP Projects include, but are not limited to: construction of gravity sewer mains, in-situ lining of existing sewer mains, sewer lift station rehabilitation, and new sewer lift station construction.

Detailed descriptions regarding recently completed and planned CIP projects are included in this report.

## FY 2023/24 Review

Engineering staff managed the five projects below, totaling \$22.6 million in FY 2023/24.

- McFadden Sewer Lift Station (\$4.5 Million). City Council awarded construction of the project in February 2022. Built in 1972, the existing McFadden Sewer Lift Station is being replaced due to age, insufficient wet well capacity and structural deficiencies. The City will readvertise the project in September 2024 and begin construction in Spring 2025.
- Humboldt Sewer Lift Station (\$4.4 million). Humboldt Sewer Lift Station was built in 1964 and is being replaced due to its age and insufficient wet well capacity. Funding has been approved in the Sewer Service Fund (\$3,990,000) and Sewer Development Fund (\$700,000). City Council awarded the project in November 2023 and construction will begin in July 2024.
- Davenport Sewer Lift Station (\$4 million). Davenport Sewer Lift Station is over 50 years old and nearing the end of its intended lifespan. Funding was approved in the FY 2022/23 CIP in the Sewer Service Fund. The City placed this project on hold to implement a sewer lift station odor mitigation program. Thanks to the success of the odor mitigation program, the City will advertise the project in Winter 2024 and begin construction in Spring 2025.
- Sewer Lining Project (\$702,000). The City has expended \$916,065 to line various sewer mains throughout the City as identified through CCTV inspection. The City Council awarded the project in August 2023 and construction commenced in January 2024. Construction is continuing and expected to be completed in Fall 2024.
- Edinger Sewer Main Project (\$4 million). The project to construct a 15-inch vitrified clay pipe (VCF) from Murdy Channel to Beach Boulevard to increase its capacity for existing developments along Edinger Avenue is ongoing. City Council awarded the project in November 2023. Construction began in April 2024 and is expected to be completed in August 2024.

## Performance Measures

As part of the SSMP, the City identified the following performance measures in order to quantify Operations and Maintenance activities:

<b>Performance Measure</b>	<b>FY 2023/24</b>
<b>Miles of Sewer Cleaned</b>	386
<b>Miles of Lateral Cleaned</b>	1
<b>Miles of Sewer Inspected</b>	70.2
<b>Miles of Sewer Repaired/Replaced</b>	.01
<b>Number of Laterals Repaired</b>	6
<b>Number of Sewer Cleanouts Installed</b>	89
<b>Number of Sewer Lateral Investigations</b>	69
<b>Number of Manholes Treated (Roach Control)</b>	1,222
<b>Number of Stoppages Cleared</b>	3
<b>Number of Sanitary Sewer Overflows</b>	0
<b>Time from SSO Call Received Until Responders Arrive</b>	N/A
<b>Time Elapsed Until Overflow is Stopped</b>	N/A
<b>Number of Food Service Establishments (FSE) Inspections</b>	301
<b>Number of FSE Enforcement Actions Initiated</b>	35
<b>Number of FSE Enforcement Actions Resolved</b>	33
<b>Number of Wet Wells Cleaned</b>	120
<b>Number of Lift Station Inspections</b>	1,119

## FY 2023/24 Expenditures<sup>1</sup>

	Original Budget	Revised Budget	Projected
Salaries, Permanent	\$3,283,827	\$3,283,827	\$2,490,691
Salaries, Temporary	\$50,000	\$50,000	\$48,503
Salaries, Overtime	\$125,000	\$125,000	\$138,779
Termination Pay Outs	\$120,000	\$120,000	\$133,829
Benefits	\$1,416,403	\$1,894,137	\$1,032,514
<b>Total Personnel</b>	<b>\$4,995,230</b>	<b>\$5,472,964</b>	<b>\$3,844,316</b>
Utilities	\$200,000	\$200,000	\$212,340
Equipment and Supplies	\$205,000	\$205,000	\$347,935
Repairs and Maintenance	\$2,400,000	\$2,475,292	\$1,695,475
Conferences and Training	\$35,000	\$35,000	\$44,530
Professional Services	\$475,000	\$945,466	\$516,002
Other Contract Services	\$115,000	\$115,000	\$48,865
Rental Expense	\$3,500	\$3,500	
Interdepartmental Charges	\$1,525,454	\$1,525,454	\$1,525,454
Expense Allowances	\$8,000	\$8,000	\$8,890
Other Expenses	\$95,000	\$95,000	\$20,085
<b>Total Operating</b>	<b>\$5,061,954</b>	<b>\$5,607,712</b>	<b>\$4,419,575</b>
CIP	\$7,715,000	\$18,664,131	\$1,714,275
Equipment	\$225,000	\$225,000	\$216,375
Vehicles		\$587,469	\$587,469
<b>Total Capital</b>	<b>\$7,940,000</b>	<b>\$19,476,600</b>	<b>\$2,518,120</b>
<b>Total Expenditures</b>	<b>\$17,997,184</b>	<b>\$30,557,276</b>	<b>\$10,782,011</b>

<sup>1</sup> Actuals for Expenditures and Revenues reflects expenditures through June 2024. It does not include items paid in July 2024 but accrued to FY 2023/24.

<sup>2</sup> Revised budget is carry-over encumbrances from prior year

<sup>3</sup> CIP Reflects total budget for projects. CIP projects are budgeted for the total projected amount during the first year, but expenditures can be spread out over multiple fiscal years.

### Fiscal Year 2023/24 Revenues

	Adopted Budget	Revised Budget	Projected
Interest Income	\$5,000	\$5,000	\$1,879,716
Customer Charges	\$10,722,168	\$10,722,168	\$11,292,202
Reimbursables	\$20,000	\$20,000	\$155,302
<b>Total Revenues</b>	<b>\$10,747,168</b>	<b>\$10,747,168</b>	<b>\$13,327,220</b>

### Projected Fiscal Year 2023/24 Fund Balance

Beginning Balance 7/1/2023	\$31,267,453
Projected FY 2023/24 Revenues	\$13,327,220
Projected FY 2022/23 Expenditures	\$10,782,011
<b>Projected Fund Balance 6/30/2024</b>	<b>\$33,812,662</b>

## Sewer Service User Charge Adjustments

Every five years, the City hires a financial consultant to perform an analysis of the financial sustainability of the sewer enterprise fund. This analysis is used to modify the sewer rate structure to meet anticipated needs over the next five-year period. On April 16, 2024, the City Council held a public hearing in accordance with Proposition 218 and adopted the following rate structure.

<b>Customer Class</b>	<b>Current</b>	<b>July 2024</b>	<b>July 2025</b>	<b>July 2026</b>	<b>July 2027</b>	<b>July 2028</b>
Single-Family Residential	\$10.98	\$11.90	\$13.32	\$14.66	\$16.12	\$17.73
Multi-Family Residential	\$9.10	\$8.76	\$9.81	\$10.79	\$11.87	\$13.05
Commercial-Industrial	\$12.74	\$22.07	\$24.71	\$27.19	\$29.90	\$32.89
K-8 (per ADA)	\$2.26	\$2.37	\$2.66	\$2.92	\$3.21	\$3.53
High School	\$3.51	\$3.56	\$3.98	\$4.38	\$4.82	\$5.30

To accommodate the billing system, all service charge rates are calculated to four decimal places, and charged on a daily factor. The daily factor converts the monthly charge based on a 365-day year. This is a modification from the initially adopted rate schedule. The customer's bill reflects a charge based on the number of days between water meter readings.



## Fiscal Year 2024/25 Budget

	<b>Budget</b>
Salaries, Permanent	\$3,287,428
Salaries, Temporary	\$40,000
Salaries, Overtime	\$125,000
Termination Pay Outs	\$120,000
Benefits	\$1,413,460
<b>PERSONNEL</b>	<b>\$4,985,888</b>
Utilities	\$201,000
Equipment and Supplies	\$175,000
Repairs and Maintenance	\$2,200,000
Conferences and Training	\$35,000
Professional Services	\$470,000
Other Contract Services	\$70,000
Rental Expense	\$3,500
Interdepartmental Charges	\$1,843,857
Expense Allowances	\$7,800
Other Expenses	\$75,000
<b>OPERATING</b>	<b>\$5,081,157</b>
Improvements	\$2,150,000
<b>CAPITAL</b>	<b>\$2,150,000</b>
<b>Total Expenditures</b>	<b>\$12,217,045</b>

## Fiscal Year 2024/25 Revenues

Interest Income	\$5,000
Customer Charges	\$11,612,108
Reimbursables	\$20,000
<b>Total Revenues</b>	<b>\$11,637,108</b>

## Fiscal Year 2024/25 Projected Fund Balance

Projected Beginning Balance 7/1/2024	\$33,812,662
Projected Revenues FY 24/25	\$11,637,108
Projected Expenditures FY 24/25	\$12,217,045
Projected Carry-over Expenditures	\$16,958,480
<b>Projected End Balance 6/30/2024</b>	<b>\$16,274,245</b>

The projected fund balance at the end of next Fiscal Year is slightly above the reserve policy level of \$11.6 million. The budget includes \$17 million in carry-over projects that are intended to be spent over multiple fiscal years.

The City Council adopted a reduced sewer rate adjustment, which will result in some projects being deferred until the next Proposition 218 hearing. The reserve balance, along with the increased revenues, will be used on immediate priority items in addition to operations and maintenance needs. Additionally, the Sewer Lateral Program has unpredictable demand. Staff has developed a policy to better determine cost sharing of curb and gutter repair between the City's sewer section and streets section.

### Fiscal Year 2024/25 Capital Projects

- PCH Restroom Sewer Lift Station (\$5 million). Design of this project consists of constructing a gravity sewer main between four public restrooms along the lower beach path on PCH between 9th St. and 22nd St. Currently, a city contractor pumps the existing septic tanks twice a week. Replacing the tanks with a gravity sewer will provide an enhanced sewer infrastructure. However, due to the project's complexity and cost, and Wastewater staff's ability to effectively manage the contractor to empty the tanks and prevent overflow, the project has been placed on hold.
- Sewer Lining (\$1.375 million). \$1.375 is budgeted to line various sewer mains throughout the City as identified through CCTV inspection. Design is underway for this project and is tentatively scheduled to bid in October 2024.