

Sewer Service Fund Performance Audit

Fiscal Year 2024/25

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 fourth 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 2025/26, this amount is \$4.2 million.
- CIP: One hundred percent (100%) of the average annual planned CIP for the following five (5) years. For FY 2025/26, 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 2025/26, this amount is \$5 million.

Based on the amounts above, the total reserve requirement for FY 2025/26 equals \$12.8 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 2024/25 Review

Engineering staff managed the five projects below, totaling \$18.5 million in FY 2024/25.

- 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. Phase 1 of the project constructed approximately 1,300 lineal-feet of 8-inch sewer main in McFadden Avenue. The City will readvertise the project in July 2025 to construct the wet well, meter vault and sewer force main and is anticipated to begin in Fall 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. Construction should be completed in August 2025.
- 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, which successfully resolved odor issues. This effort strengthened the City's collaboration with the community to help ensure a design that is acceptable to residents. Upon completion of the design, the City plans to advertise the project in Fall 2025, with construction scheduled to begin Spring 2026.
- Sewer Lining Project (\$1.6 million). The City has budgeted \$1.6 million to line various sewer mains throughout the City as identified through CCTV inspection. The City Council awarded the project in June 2025 and construction will commence in July 2025. Construction is expected to be completed in Winter 2025.
- Edinger Sewer Main Project (\$4 million). This project is to construct a 15-inch vitrified clay pipe (VCP) from Murdy Channel to Beach Boulevard to increase its capacity for existing developments along Edinger Avenue. City Council awarded the project in November 2023. Construction began in April 2024 and was completed in December 2024.

Performance Measures

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

Performance Measure	FY 2024/25
Miles of Sewer Cleaned	70.4
Miles of Lateral Cleaned	6
Miles of Sewer Inspected	64.3
Number of Laterals Repaired	75
Number of Sewer Cleanouts Installed	118
Number of Sewer Lateral Investigations	76
Number of Manholes Treated (Roach Control)	1,340
Number of Stoppages Cleared	6
Number of Sanitary Sewer Overflows	0
Time from SSO Call Received Until Responders Arrive	N/A
Time Elapsed Until Overflow is Stopped	N/A
Number of Food Service Establishments (FSE) Inspections	31
Number of FSE Enforcement Actions Initiated	80
Number of FSE Enforcement Actions Resolved	55
Number of Wet Wells Cleaned	125
Number of Lift Station Inspections	1,226

FY 2024/25 Expenditures¹

	Original Budget	Revised Budget	Actual ¹
Salaries, Permanent	\$3,287,428	\$3,254,925	\$2,200,553
Salaries, Temporary	\$40,000	\$40,000	\$88,153
Salaries, Overtime	\$125,000	\$125,000	\$132,623
Termination Pay Outs	\$120,000	\$120,000	\$122,851
Benefits	\$1,413,460	\$1,413,460	\$948,478
Total Personnel	\$4,985,888	\$4,953,385	\$3,492,659
Utilities	\$201,000	\$201,000	\$209,203
Equipment and Supplies	\$175,000	\$182,399	\$251,478
Repairs and Maintenance	\$2,200,000	\$2,682,888	\$1,952,238
Conferences and Training	\$35,000	\$35,000	\$31,412
Professional Services	\$470,000	\$739,550	\$473,438
Other Contract Services	\$70,000	\$102,503	\$54,735
Rental Expense	\$3,500	\$3,500	\$0
Interdepartmental Charges	\$1,843,857	\$1,843,857	\$1,843,857
Expense Allowances	\$7,800	\$7,800	\$6,664
Other Expenses	\$75,000	\$75,000	\$3,948
Total Operating	\$5,081,157	\$5,873,496	\$4,826,973
CIP	\$2,150,000	\$16,956,274	\$6,870,692
Total Capital	\$2,150,000	\$16,956,274	\$6,870,692
Total Expenditures	\$12,217,045	\$27,783,155	\$15,190,324

¹ Actuals for Expenditures and Revenues reflects expenditures through June 2025. Invoices for purchases and work performed prior to June 30, 2025 will but paid after that date will be accrued to FY 2024/25.

² Revised budget is carry-over encumbrances from prior year

³ 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 2024/25 Revenues

	Adopted Budget	Revised Budget	Actual
Interest Income	\$5,000	\$5,000	\$1,091,993
Customer Charges	\$11,612,108	\$11,612,108	\$12,924,559
Reimbursables	\$20,000	\$20,000	\$155,302
Total Revenues	\$11,637,108	\$11,637,108	\$14,020,328

Projected Fiscal Year 2024/25 Fund Balance

Beginning Balance 7/1/2024	\$26,306,884
Projected FY 2024/25 Revenues	\$14,020,328
Projected FY 2024/25 Expenditures	\$15,190,324
Projected Fund Balance 6/30/2025	\$25,136,888

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.

Customer Class	July 2024	July 2025	July 2026	July 2027	July 2028
Single-Family Residential	\$11.90	\$13.32	\$14.66	\$16.12	\$17.73
Multi-Family Residential	\$8.76	\$9.81	\$10.79	\$11.87	\$13.05
Commercial-Industrial	\$22.07	\$24.71	\$27.19	\$29.90	\$32.89
K-8 (per ADA)	\$2.37	\$2.66	\$2.92	\$3.21	\$3.53
High School	\$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 2025/26 Budget

	Budget
Salaries, Permanent	\$3,220,253
Salaries, Temporary	\$100,000
Salaries, Overtime	\$150,000
Termination Pay Outs	\$120,000
Benefits	\$1,502,682
PERSONNEL	\$5,092,935
Utilities	\$253,500
Equipment and Supplies	\$120,000
Repairs and Maintenance	\$1,925,000
Conferences and Training	\$33,000
Professional Services	\$690,000
Other Contract Services	\$70,000
Rental Expense	\$1,899,173
Interdepartmental Charges	\$7,800
Expense Allowances	\$96,000
Other Expenses	\$253,500
OPERATING	\$5,094,473
Equipment	\$355,000
Improvements	\$2,150,000
Vehicles	\$175,000
CAPITAL	\$2,680,000
Total Expenditures	\$12,867,408

Fiscal Year 2025/26 Revenues

Interest Income	\$5,000
Customer Charges	\$14,430,000
Reimbursables	\$20,000
Total Revenues	\$14,455,000

Fiscal Year 2025/26 Projected Fund Balance

Projected Beginning Balance 7/1/2025	\$25,136,888
Projected Revenues FY 25/26	\$14,455,000
Projected Expenditures FY 25/26	\$12,917,408
Projected Carry-over Expenditures	\$10,085,582
Projected End Balance 6/30/2024	\$16,588,899

The projected fund balance at the end of next Fiscal Year is slightly above the reserve policy level of \$12.8 million. The budget includes \$10 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 2025/26 Capital Projects

- Sewer Lining (\$2.5 million). \$2.5 million 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 Fall 2025.
- Gilbert Sewer Lift Station (\$500,000). Design funding has been allocated to replace the existing Gilbert Sewer Lift Station with a state of the art facility. Originally constructed in 1962, the current lift station is over 60 years old and is being replaced due to its age, insufficient well well capacity, and structural deficiencies. Construction funding in the amount of \$5.5 million will be requested in the FY 2026/27 budget from the Sewer Service Fund, with construction anticipated to begin in Spring 2027.