



## MINUTES FINANCE COMMISSION

Wednesday, April 24, 2024 - 5:00 p.m.  
City of Huntington Beach  
Council Chambers  
Huntington Beach, CA 92648

For the audio recording of the April 24, 2024, Finance Commission Meeting, please visit the City's website at: <https://huntingtonbeach.legistar.com/Calendar.aspx>

Chair Billy Hamilton called the meeting to order at 5:00 p.m. and Commissioner Janet Michels led the Pledge of Allegiance.

MEMBERS  
PRESENT: Billy Hamilton, Chair  
Kelly Gates, Vice-Chair  
David Cicerone, Commissioner  
Jamie Craver, Commissioner  
Frank Lo Grasso, Commissioner  
Janet Michels, Commissioner

MEMBERS ABSENT: Robert Sternberg, Commissioner

STAFF PRESENT  
Travis Hopkins, Assistant City Manager  
Alvin Papa, Deputy Director of Public Works  
Thuy Vi, Management Aide, Finance  
Shari Saraye, Buyer  
Jessica Castro, Accounting Technician

### **PUBLIC COMMENTS**

Shammy Dee spoke about the City's budget adoption process. At last year's budget adoption City Council meeting, last minute changes to the proposed budget were made and handed out before the meeting without time for the public to review. She requested that the community have an opportunity to see and speak about the proposed budget before it is approved by the City Council.

Ken Inouye spoke about the City's budget. With the defined benefit plan, he wanted to know what the current pension cost would be if we started anew to make sure that the annual payment is sustainable. He stated that the City's \$40M deficit does not include payments for infrastructure and the payments are necessary to repay the bonds.

David Rynerson spoke about the lack of transparency that resulted from the last-minute changes to the budget at the last budget adoption meeting. He stated that based on the audit report, there is a \$230M change in the unfunded pension liability in one year, which speaks of fiscal impropriety and is a disservice to our public employees who are depending on that pension.

Lawrence Hershe spoke about the City's budget and discussion of \$1M savings in personnel and operating costs. In the last two years, he has seen a shift in funding that has been taken away

from temporary employees in Community Services and used to fund permanent positions in the administrative budget for the City Council, City Attorney and City Manager. He noted that the increase in pay for permanent Library staff went up .5% while the City Attorney's went up 35% and the City Manager up 12%. The City Council is spending 58% more on operating expenses.

Assistant City Manager Travis Hopkins announced that the proposed budget will be presented to the City Council at the May 21, 2024 City Council meeting, and will be available to the public. The City Council will consider budget adoption in the beginning of June 2024, and additional meetings will be held as needed throughout the month of June.

## **CONSENT ITEMS**

### **Approval of Meeting Minutes**

**Motion: Moved by Commissioner Frank Lo Grasso and seconded by Commissioner Kelly Gates to approve the Finance Commission Meeting Minutes dated March 27, 2024, as presented**

The motion carried by the following votes: 4-0-1-2

Ayes: Hamilton; Gates; Lo Grasso; Michels

Noes: None

Abstain: Cicerone

Absent: Craver; Sternberg

## **DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS**

### **D1. Water Usage and Sewer Rates – Cicerone**

Alvin Papa, Deputy Director of Public Works gave a presentation on the Water and Sewer Rate Adjustment. Papa stated that his primary duties are managing the water, wastewater and storm drain divisions within the City. He noted that his presentation is an abbreviated version of what was presented to the City Council on April 16, 2024. Papa stated that the City has 60+ year-old infrastructure that we rely on to make sure that our water turns on, toilets flush and for the overall public health of our residents. Of our nine wells, three are currently inactive. The average design life of a well is approximately 50 years, and our wells are approaching that with some over that age. We have 27 sewer lift stations in the City and are in a very low-lying area in Orange County. We must lift our sewage and pump it over to the Orange County Sanitation District (OCSD) in Fountain Valley, where wastewater gets treated. We currently have seven sewer pump stations that are approaching 50 years old. If any of those pump stations were to fail, then it is likely that that sewage and wastewater would end up in our beaches, harbors, and potentially our wetlands. We have insufficient water pipe replacement. The pipe in our ground is approaching 50 to 60 years old, is getting brittle and some are breaking. We need to replace it before we have water main and sewer main breaks in the City.

Our two consultants, Raftelis Consulting and RDN developed a financial plan that ensures that we have the appropriate amount of revenues to help us manage our water and sewer infrastructure efficiently so that we can take care of our system, perform all the repairs that we need to repair and

ensure that we do not have failures. Whenever we have a failure at a well or a sewer station, we put the public at risk and have to make costly emergency repairs. When we make repairs ahead of time, we achieve long-term savings.

Papa stated that when we developed the water rates, we went through a master planning process where we look at all the infrastructure in the City. We currently have about 660 miles of pipe, nine wells, four reservoirs, and four booster stations. We looked at all the equipment and infrastructure to figure out what needs to be done over the next 20 years and identified about \$167M worth of projects. Approximately 40 projects need to be completed in the next five years. On average, we have been spending about \$3.2M over the past five years. Our three main focuses in our Water Master Plan are: three new water wells \$22M; onsite chlorine generation - \$15M; and aging pipe replacement - \$36M.

We need to build three new water wells. The Orange County Water District (OCWD) manages the groundwater basin in Orange County. OCWD dictates how much the Orange County cities that are connected to the basin can pump outside of that basin. We use approximately 26,000 acre feet a year to supply water to our residents. We are only allowed to use up to 85% based on the groundwater district regulations. We are currently pumping about 85%, which costs approximately \$688 per acre foot. The remaining 15% is purchased from the State Water Project at \$1,265 per acre foot, which is over double the cost. It is in our best interest to keep pumping water out of the ground. We currently have nine wells, and three are inactive. If we lose a well or if the well breaks down, then we pay an additional \$2.3 million per year. It will take us two to three years to replace a well, which is an additional cost of approximately \$7M over the course of three years. It is critical for us to build new wells before an emergency occurs.

Onsite chlorine generation is an effort to replace the existing gaseous chlorine that we have at our wells and replace it with a saltwater onsite generation system. Currently, gaseous chlorine comes from one manufacturer on the West Coast, located in Washington. During COVID, there had been a fire at the factory and we were not guaranteed chlorine. If we cannot get chlorine, we cannot disinfect our water, which means we have to import water from the State Water Project at double the cost. By moving to a saltwater system, we can combine regular salt and electricity to generate chlorine onsite. We would not need to depend on a shipment of gaseous chlorine from out of state, and it is a safer technology that is reliable and safe.

We have 660 miles of aging water pipe in the City that needs replacement. If we assume that water pipe in the ground lasts about 100 years, that means we should be replacing about 6.6 miles of pipe a year. Historically, we have been replacing one mile of pipe a year. As part of our Master Plan, we are proposing to increase pipe replacement to two miles per year. In future rate cycles, we need to get to replacing six miles per year as an ultimate target, but we do not think that is achievable for at least a couple of years.

With the Sewer Master Plan, we evaluated the entire sewer system of over 330 miles of pipe, 27 lift stations, thousands of manholes and have identified about \$74M worth of projects that needed to be completed. The projected large CIP expenditures in the first two years account for projects that have been on hold for the past two years such as the Humboldt Sewer lift station, Davenport Island sewer lift station, PCH restrooms and the Edinger sewer.

We have seven lift stations that are approaching 50 years old that ultimately need to be replaced. The biggest challenges we face with lift stations is that we have to dig wet wells that are 20 to 30 feet deep, which makes it very hard to build, and is very challenging and expensive. These projects need to be built to ensure that we are prepared for any power outages so that we have enough well capacity to hold sewage until power can get back on. We have to make sure that we have emergency generators at each of those lift stations and ultimately, the goal is to prevent sewer spills.

Papa stated that we conduct water and sewer rates studies in accordance with Proposition 218 (Prop 218) standards. Prop 218 is legislation that requires public notification for modification of water and sewer rates, and that rates are in accordance with each consumer's usage. This is a fee for a service and not a tax. Each person only pays for the water or sewer service they use, and they pay for it proportionally. The funds collected as part of the water and sewer rates can only be used to fund operations, maintenance and projects for the water and sewer system. Under Prop 218, a public hearing is required, and notices must be sent to all property owners. If there are protests of 50% +1 from people that are affected, then the City Council does not have the authority to approve any adjustments to the rates. The factors that we considered when determining our rates are operating costs that were primarily impacted by inflation.

Lo Grasso asked if public hearing notices are sent out with the water bill. Papa stated that the formal notices were mailed to each property owner. As part of this effort, we went above and beyond and sent notices to the tenants as well to ensure that they were informed. There was a reminder that was sent out with the March bill that let people know that the Prop 218 notice was sent and if not received, a copy could be found on the City's website. The City's website had an electronic copy of the Prop 218 notice, along with the water and sewer rate studies. We also did outreach on social media through numerous Facebook and Instagram posts, on the City's newsletter Surf City Break, and the City Manager's Report. Lo Grasso asked what the protest deadline was. Papa stated that the deadline to submit a protest was until the end of the public hearing. Hopkins stated that the public hearing was held at last Tuesday's City Council meeting. Lo Grasso stated that he believes that most people did not know about this until after the public hearing was held because many people do not read their bill.

Papa stated that when determining our rates, we looked at operating costs over the past years. CPI has increased by about 20% over the past five years. One of our major cost drivers are electricity and gas. Over the past five years, electricity has gone up about 45%, and the cost to build projects has gone up about 38.5%. Historically, we would adjust our rates by CPI, but if CPI went up 20% in the past five years and cost of electricity and construction is up 38 to 40%, that is almost double. The increases we have made are not enough. We set our rates in 2019 and then COVID happened. The government started printing a bunch of money, and everything from cars, housing, rent, food and cost of water became more expensive. Our consultant looked at all these factors along with the revenues that we needed to collect, and ultimately came up with a plan that ensures that we would meet our target reserves at the end of the five-year study period. We did not change our methodology of the categories of rates nor our reserve methodology. The only thing that has changed are the numbers.

As background, we did not increase our water rates back in 2011. Rates stayed flat, yet inflation still increased over that time. We suspect that the impact of the recession in 2009 had something to do with us not increasing our rates. In 2015, we adjusted rates and introduced the capital charge, but it was not enough to catch up for the prior period when rates were frozen. In 2019, we adjusted rates

again, but those rates were set pre-pandemic. In less than a year later, the federal government printed a lot of money and we saw inflation go through the roof. During that first year of COVID, we froze rates and lost revenue, but the City felt it was necessary to help support our residents at the time.

Papa stated that a failed well would cost an additional \$2.3M per year. Our wholesale water costs have increased. We pay OCWD for 85% of our groundwater, which has increased by 10.3%. Metropolitan Water District of Orange County (MWDOC) oversees 15% of import water that we get from the State Water Project, and the cost has gone up 16.6% in the past year. Their costs for pumping, electrical and staffing have also increased as a result of the same inflationary factors we are feeling, and they pass the costs directly on to us and we pass those costs on to our ratepayers.

There are three major water rates components on every resident's water bill. The fixed meter charge is the portion of your water bill that pays for the daily operations and maintenance. It pays for our staff that goes out to repair a damaged fire hydrant or a water main break, for wastewater to make sure that sewage is getting pumped and sent over to OCSD, and for the staff time to maintain the system and clean the sewer to clear all the calcium and debris. The fixed meter charge is based on the size of your meter, and you pay a monthly set fee. The capital charge is the amount of your water bill that pays for the projects that we build such as a new well, chlorine systems and reservoir. Based on your meter size, you pay a certain fee. A 3/4-inch meter, which is a single-family home residence, is about \$4 a month. The commodity rate, sometimes referred to as a consumption rate, is the pass-through cost that the wholesalers OCWD and MWDOC charge us for usage. Every resident will pay based on the amount of water that they use, and it is charged per billing unit. A billing unit is 100 cubic feet which equals about 728 gallons. The private fire lane fee typically does not apply to single family residences and only applies to commercial buildings or apartments that have a private fire system. The cost that they pay is to ensure that the City can provide them adequate water flow in the case of a fire so that the pressure and the amount of water is available to fight a fire at their building.

Papa shared the revised rates that were approved by the City Council on April 16, 2024, which was a modified version of the rates with a 25% lower impact. The overall five-year rate water impact is based on about 800 cubic feet of usage per residence compared to every city in our area that revised their rates in the past year, this year or will do so in the future. We are towards the lower range compared to a lot of the other agencies in our area. If we did not adjust our rates, we would burn through our reserves and run out of money within three years, which is why it was important for us to adjust rates. Under the proposed rate increases, we anticipated using some of our reserves for the first couple of years but then build everything back and hit our target reserve by the end of the five years. On the chart of single-family residential water rate consumption, we are currently at the bottom range to comparable agencies in Orange County. After the rate increases, we are closer to the middle of the chart, but slightly lower based on the rates that the City Council approved.

Papa reviewed the 5-year sewer rate table. Based on the customer category, you pay one flat rate for operations, maintenance and projects. Single family and multi-residential categories are based on the number of dwelling units. If you are a single-family home, you are one billing unit. For commercial industrial buildings, there is an equivalent dwelling unit based on the size of your meter. For educational institutions, it is based on average daily attendance. The rates listed on the table reflect what was originally proposed and was not updated in time for this meeting. The approved rates are significantly lower than what was originally proposed. When our consultants did an analysis

of what other cities were charging for sewer rates over the course of five years, we were lower than most other agencies in our area. Similar to water rates, after three years, we would burn through our reserves if we did nothing. With the proposed rate increases, we would use some reserves, but it is more balanced when compared to water.

With wastewater rates, we are currently towards the middle range when compared to the rest of the county. After the proposed sewer rate adjustments, we anticipate that will still be towards the middle.

Papa shared the reduced rate table that was approved by the City Council on April 16, 2024. Originally, we planned for a 5-year rate increase where a single-family home would pay from approximately \$55 a month to \$96 a month. The City Council wanted staff to look at how we could reduce rates. We received numerous comments from the public about getting rates down and 727 protest letters as part of the public hearing process. The weekend before the public hearing, staff looked for alternatives.

The consumption rate is the price that we pay for water. OCWD and MWDOC sell us the water and we do not have a say in how much we pay for that water. That cost gets passed through directly to our customers. We cannot change the rate, and the increases that we experienced account for about 40% of our rate increase. To lower that rate, we would have to find other revenue to subsidize and that would come from our general fund. That is a rare alternative that some cities have done, but not something this community would support. The fixed meter charge relates to the daily operations and maintenance of our system and pays for the staff to make repairs to run the system, the electricity, gas and operations to keep the systems running. With electric and gas prices going up, the cost to operate chlorine prices have doubled over the past five years. We have to continue to pay those price increases, and the only alternative is to turn those systems off.

Papa stated that we looked at the proposed projects in our Master Plan to see what projects we could defer. We found about 25% of the projects on our list to be completed in the next five years that could be deferred, which reduced the impact by about 25%. Instead of having a \$40 impact over the course of five years, it became a \$30 impact for a reduction of about \$10 a month. We opted to do that so the number of projects that we are building are going to be a little less than originally proposed. We informed the City Council that deferring these projects does not come without risk and there is a chance that something could break down later. We will mitigate against the risks by having our Public Utilities Division staff do more maintenance such as more oil changes, replace more parts and closely monitor our equipment. We are confident that over the next five years, the projects that we have selected will be able to mitigate against any potential negatives. If any issues arise, we will provide the City Council with an update and recommendation.

Papa reviewed the summary table of the 100% CIP. Originally, it was an average annual impact of about \$8.00 or 11.8% per year. Over the course of five years, it would have been 74%. By reducing the number of projects, we were able to get it down to \$6.13 per year, which is about a 9% impact, taking the five-year impact down to about 56%. Instead of \$40, it is now a \$30 for a 25% overall less impact reduction.

Papa shared the list of the projects that are proposed and projects to be built over the next five years that total \$40M. Our most important projects are the three water wells, and it is our goal to get those started and built. We had planned to do all the chlorine projects over the course of five years, but in

this reduced plan, we are focusing on Wells 4, 7 and 13 at our Peck Complex where our Springdale and Peck reservoirs are located, which are the largest reservoirs in our City. We would get the most cost savings by implementing the chlorine project there. For Well 3A chlorine and Manganese Treatment system at Well 3A, we are revamping the site and doing construction at the same time with building the chlorine. There will be cost savings by bundling those projects together.

Papa reviewed the list of the deferred water and sewer projects. There are \$46M in sewer projects that will be built, and nine of them are directly related to lift stations. Six of the nine are attributed to projects that are already in construction. The annual sewer lining program is \$1.375M per year. To save money, we will perform it on an as-needed basis. We are currently going through a citywide closed circuit television project where we put a camera through all of the City's sewer and can look at all the cracks and bumps in the pipe. If we see anything within the next five years that needs to be addressed immediately, we will fix it on a case-by-case basis with our operations and maintenance funds. Instead of rehabbing an entire sewer lift station, infrastructure repairs can be done on portions of the lift station such as replacing the pump and motor or control systems.

Papa stated that on April 16, 2024, the City Council approved all three resolutions to: 1) Adopt Resolution 2024-18 readopting and revising the City's Water Commodity Rates, per Section 14.12.040 of the HBMC; 2) Adopt Resolution 2024-20 adjusting water meter rates, including a capital surcharge and private fire line service fee, per Section 14.12.040 of the HBMC; and 3) Adopt Resolution 2024-19 adjusting sewer service user charges per Section 14.54.020 of the HBMC. Hopkins stated that a study session was provided to the City Council on January 16, 2024, public notices were mailed out and the public hearing was held on April 16, 2024. The City Council approved the 25% reduction in the capital projects.

Lo Grasso asked why we are spending \$7.2 million to put a well in Westminster. Papa stated that the City owns property in Westminster and since we own the land, we can build and operate the well there. Hopkins stated that all City-owned wells pump into the City's water system and into our reservoirs. Lo Grasso asked and Papa confirmed that OCSD oversees to make sure we do not pull out more than 85% of our water. Hopkins stated that OCWD manages the groundwater that all North Orange County cities use, and they manage how much is in the aquifer.

Lo Grasso asked if the water system gets any of the annual 15% infrastructure budget. Papa stated that the water system is eligible, however, historically the water and sewer systems have been self-sufficient and have not used that funding. The infrastructure funding has typically been used for street, park and facility projects. Lo Grasso asked that since the water system is no longer self-sufficient if there was a consideration to get funding from the 15% infrastructure funds. Papa stated that it was not considered because that money is typically used for general fund projects that do not have dedicated funding sources. We chose not to use infrastructure funds because other projects would have to be deferred.

Michels asked and Papa confirmed that the pass-through rate for the water we are purchasing is coming through the consumption rate and we do not control the pricing. Michels asked if ratepayers pay 40% of the rate. Papa stated that the rate increase reflects the 40% increase in the wholesale rates, which is the OCWD and MWDOC pass through rates. Michels asked and Papa confirmed that the rates are increasing by 70% in the next five years, compared to the capital charge, which are increasing at 2% a year. Papa stated that we had originally proposed to increase the capital charge

at 19% per year, but after reducing the number of projects, we got it down to an increase of about 2% per year for the next five years. Papa stated that at the end of the five years, the rates will stay where they are until staff proposes another Prop 218 process. Michels asked and Papa confirmed that if the OCWD pass through rate were to go up, we would have to pass that on to the consumer. Michels asked and Papa confirmed that we only control the capital and sewer charges. Michels stated that consumption is still the largest driver of what people pay, and asked if there are any efforts to educate ratepayers on how they could reduce their consumption. Papa stated that over the years, we have been focusing on educating our residents about conservation. We have a water conservation outreach program, promote conservation at Surf City Nights, and have had events at the Senior Center. There is an education component where we go to schools and give presentations. We also have rebates that we promote to our residents and inform them about water conservation. Recently, Governor Newsom passed legislation called California Conservation Way of Life, which is focused on urban water suppliers. Water suppliers that are over 10,000 population need to start reducing their water consumption. Over the next couple of years, we will be monitoring, reporting and doing a series of things to try to get water usage down, particularly indoor water usage. Michels asked how we stack up compared to the rest of Orange County in terms of usage. Papa stated that he did not have that information, but during the drought, we asked residents to cut back on watering and there was a 10% to 20% reduction goal. Within two or three months, we met the 10% target. Our residents are mindful of water usage when informed about it.

Craver asked if general fund money is used in an emergency. Papa stated that we currently have about \$35M in reserves and would use reserve funding first.

Hamilton asked if the fees charged stay with Public Works or if goes to the general fund. Papa stated that the fees stay in the water fund, and fees that are charged to the sewer fund stay in the sewer fund. Hamilton asked if the City could put general fund dollars into Public Works to fund some of these capital expenditures through the infrastructure fund or a different fund. Papa stated if it is the will of the City Council, they could do that, but historically he has not seen that done because there is a greater need on the general fund side. Typically, if there was increased need on the water sewer side, they would go through this Prop 218 process and utilize water and sewer funds whenever possible. Hamilton stated that the audited financials indicate that the City has \$400M in cash that the City Treasurer invests which could be used for preventive maintenance to improve our service system.

Gates stated that she read an article about a year ago that reported that the County of Orange was either considering or implementing recycling water for drinking. Papa stated that a law was passed recently that allows for direct potable reuse which means that treated wastewater can be sent directly into the water pipelines. He understands that there are no plans to do that in Orange County because we currently collect the wastewater, and it goes to the OCSD. They are recovering about 99% of that water and treating it as part of the groundwater replenishment system, which is a reverse osmosis treatment facility that OCWD manages, but they do not inject it directly into our system. There is already infrastructure that brings it to Anaheim, and we have spreading grounds where they pour it on dirt that percolates down into the ground so that it can reach the groundwater aquifer naturally and get to us. There are no plans to recycle water because they have invested millions of dollars into this system and would like to use as much of the system that they have in place. We are recovering about 99% of the waste and are efficient and award-winning when compared to the rest of the nation.

Craver stated that she understands that there is a certain amount of cash reserves that the City is required to have. She asked if there is an understanding that the \$400M is a savings or if it is attached to the City's ability to maintain financial status and bond status. Hamilton stated that he does not know about the bond requirements. Revenues were \$231M, which is an increase of 12% from the prior year. With \$400M in cash and costs of \$150M to run the City, that can last for a few years without revenue from property tax.

Cicerone asked who made the decision to send out public notices regarding the rate increases. Hopkins stated that staff informs the City Council at the study session and moves forward with the setting the public hearing date and that triggers sending out the public notice. Cicerone asked and Hopkins confirmed that the City Council knew about the notices going out. Cicerone asked why the rate increases were not presented to the Finance Commission or to the Public Works Commission. Papa stated that a verbal update was provided to the Public Works Commission, and this item was agendaized for Finance Commission before the April 16, 2024 City Council meeting, but was pushed until after the public hearing. Cicerone stated that he would like to look into project costs associated with the water wells. He would like to discuss cutting operating expenses and overhead. The City is sending out rate increase notices to the public when the City population has dropped by over 6,000 and water consumption has gone down by 22%. We are being tasked with paying more for less, yet nothing changes on the expense side. We have to get a handle on the expenses, particularly when we are spending from \$6.8M to \$7.3M for a water well.

Papa stated that the Master Plans are agendaized for discussion at the May 2024 Public Works Commission meeting where we will present the Water Master Plan. We have identified the projects, but these are conceptual level estimates based on the work that is required. To get detailed estimates, we have to hire an engineer, put together a predesign report and start designing to figure out what these actually cost. These are conceptual order of magnitude estimates that are used in planning processes. These projects are expensive, and it is more costly to build in Huntington Beach than in other places. Every contract that goes out is publicly bid. There are times where we have estimated using projects that were recently bid in the area, and the bids will come back at 50% to 75% more than estimated. Contractors are busy and labor, equipment and materials are expensive. Many times, we value engineer a project, which means figuring out what we can we take out, what cheaper material we can use, or take some parts out of the project and still be okay. Staff does a great job of trying to get the price as low as possible. The Water Master Plan was just completed and is scheduled to be presented on May 18. The Sewer Master Plan is 75% complete, and we hope to present that in June or July so that the Public Works Commission can get a deeper dive as to what we have planned. When these projects go to City Council, you will have the project details before construction is awarded.

Papa stated that he could only speak on expenses for water, wastewater and storm drains. In the three years that he has worked for the City, there have been a number of efforts to save money. The neutral output discharge elimination system (NODES) is water flushing. Sometimes we pop open a hydrant and shoot water into the street to clear out sand and silt build-up in our water system. Traditionally, we would shoot it out into the street and let that water burn off. We are paying for that water, and it would take about four to six men to coordinate traffic control and clear parked vehicles. We bought a NODES truck that allows us to do the same amount of work and not waste water. It works in a closed loop; we can operate it that with a two to three-man crew and we do not have to

close off streets. We have saved hundreds and thousands of gallons of water over the years by implementing that system.

We rolled out automatic meter infrastructure. We used to have people that would walk to every single water meter and read the meter. We have installed 52,000 units in the City, and it is all done through cellular telephone modem. We can now remotely look at meters through a computer and have reduced costs by not having somebody walk to each meter. Ultimately, we will be able to get a customer portal in place so that residents can track their usage and modify their water usage based on weather patterns, and it will also give weather alerts so that you can be reminded to modify your sprinkler system. There are areas in the City where we have large medians or areas of turf that were just grass. We have received grants to replace all that turf with water efficient landscaping and replace the irrigation heads with more water efficient sprinkler heads. On Goldenwest, we replaced turf with water efficient landscaping which was funded by the MWDOC Water Conservation. Over time, that will save us money. We started doing some paving in-house to save money. When we dig up a street and replace sewer pipe and fix a main break, we would hire contractors to do the paving. We have started to rent equipment and pave over our trenches instead of hiring a contractor. We are beginning to do that for smaller jobs to save some money.

Gates asked that when replacing wells and lifting sewer systems, if we are outsourcing that work or if our Public Works staff is trained to do that work. Papa stated that building a well is very complicated and staff is not skilled to do that, so that work is contracted out.

Papa stated that a lot of our pipes are metal. To prevent corrosion, we connect an anode to the pipe and instead of rusting the pipe, it will rust that piece of metal that is connected to the pipe. For it to work, you have to connect all the pipes inside by welding it. We would typically hire a contractor but have found staff that can do the work. We will look at cost savings in our future corrosion control projects. If staff that is able to do that work, we can save tens and thousands of dollars. We contract out most projects, but whenever we see an ability to do some work in house by staff, we do that.

Cicerone asked what the City paid the two consultants. Papa stated that we paid Raftelis approximately \$70,000 and for the water rate study. For the sewer rate study, we paid approximately \$20,000 to \$30,000, but he can get an update with more specific numbers.

### D3. OC Register Article on JPA Possessory Interest Tax – Hamilton

Hamilton switched to discussion of Item D3. He stated that the Orange County Register article on JPA possessory interest tax continues our discussion on Elan and Breakwater, the two apartment complexes that are owned by the JPA, which the City forwent property tax collection in 2020 of \$500,000 a year. We were not sure of the County's position because the County thought that they were looking at possessory interest, which is just another name for a property tax. This article is written by our County Assessor on how he interprets possessory interest. His view is that the taxable possessory interest is assessed to the administrator, which in our case is Catalyst, and not the renters. Hamilton stated that the possessory interest or the property tax of roughly \$500,000 is going to be assessed against the administrator. He previously heard that Catalyst will have to figure out if they want to continue to operate the apartments. Hamilton asked Hopkins if he had any additional information, and Hopkins stated that he did not at this time.

Cicerone asked if the property management company agreed to the joint tenant deal because of the incentive they got to not pay property tax. Hamilton stated that he assumes they entered into the agreement because they would make money, and part of their understanding was they would not pay property tax. Cicerone stated that this does not work for them financially unless they get that property tax relief. Lo Grasso stated that not paying property taxes is what facilitates the reduction in rent. It was presented by the previous City Council that this was going to help middle-income people to be able to rent in the Huntington Beach, even though it is not going to affect any of our low-income numbers. This was something that we could do through this JPA process that would assist in lowering rents for 600 people, but we have had to forego a half a million dollars a year in property taxes for that to happen. Hopkins stated that he assumes that we would get a portion of the possessory interest collected, but we will have to see.

Cicerone asked what information our auditor provided about accounting for the property tax revenues that we are no longer getting. Hamilton stated that we are not accounting for it because it is a joint partnership that is half owned by a government entity and a private entity, and managed by the private entity who is operating it. The City has a call option to get these properties sold in 15 years. It does not show up on the books because property tax is recognized when it is received, and it was not received. Michels stated that from the recording and minutes of our last meeting, the auditor stated that upon the sale of the property, a financial transaction would occur and be reported. Lo Grasso asked Hopkins if there is a contractual obligation for this administrator to remain the administrator through the length of this bond or if they could back out if they wanted to. Hopkins stated that he would have to check with the legal department.

Craver thanked Hamilton for sharing the article. Hopkins confirmed with Hamilton that the article was from April 6, 2024, and this was a recent determination.

## D2. Update on Vacancy Report Request – Cicerone

Hamilton stated that at the last meeting, we decided to have a discussion with Interim City Manager Parra and Hopkins about the request for the vacancy report with data that we did not receive. Cicerone and Sternberg met with Parra and Hopkins. Cicerone stated that they had a terrific discussion. Hopkins suggested that the report could be done quarterly. Finance is already producing the vacancy report, and Cicerone requested for the additional data of dollars and dates. Cicerone stated that Parra pointed out that the requested information does not positively impact revenue. He stated that his point was to shed light on the fact that we have a 20% vacancy that runs in excess of six months. If we are doing this, we should do what the Los Angeles City Council does which is if a job remains vacant, eliminate the headcount. He stated that Parra did not agree. Cicerone stated that Human Resources came up with a \$2.1M accrued favorable impact to the budget through October of last year and is using that as a cushion. Cicerone stated that he will agendize for discussion the items that he would like to receive monthly, which would entail a financial update.

Michels asked if the vacancy report is going to be produced, and Cicerone stated that it is not going to be produced. Hopkins stated that we will commit to providing to the Commission the vacancy report that is available twice a month.

Hopkins stated that he and Parra are open to having a discussion in areas that would provide reduction of costs, improve revenues, impacts to the budget and balancing our budget.

#### D4. Revenue Enhancement Ad Hoc Committee Update – Cicerone

Cicerone stated that Parra expressed interested in meeting with the Revenue Enhancement Ad Hoc Committee. The committee will work together to present to Parra. Cicerone confirmed that the ad hoc committee members are Michels, Gates and himself and would be meeting with Hopkins and Parra in June.

### **COMMISSIONER COMMENTS**

Craver thanked Papa for his presentation and stated that she appreciates the hard work of the City.

Michels stated that she appreciated that we had speakers in the meeting today and thought they brought up important topics that should be within the purview of this group and hopes some will be agendized for us at for future meetings. She stated that Papa's presentation was very informative, and she is impressed with the professionalism and detailed review of expense reductions that we are already thinking about.

Gates stated that she appreciated the water and sewer presentation and the public comments. She shared her thoughts, prayers and sympathies for the Detloff family for the loss of our past Mayor Shirley Detloff.

Cicerone stated that he agreed with the public comments about the clarity and transparency of financial reporting and would like to revisit that topic.

Lo Grasso thanked Hopkins for coming to the meeting.

Hamilton thanked Hopkins. He stated that he is looking forward to discussing the budget at our next meeting.

### **ADJOURNMENT**

**Motion: Moved by Commissioner Craver and seconded by Commissioner Michels to adjourn the meeting at 6:48 p.m.**

The motion carried by the following votes: 6-0-1

Ayes: Cicerone; Craver; Gates; Hamilton; Lo Grasso; Michels

Noes: None

Absent: Sternberg

Submitted by:

Travis Hopkins, Assistant City Manager

By: Thuy Vi, Finance Management Aide



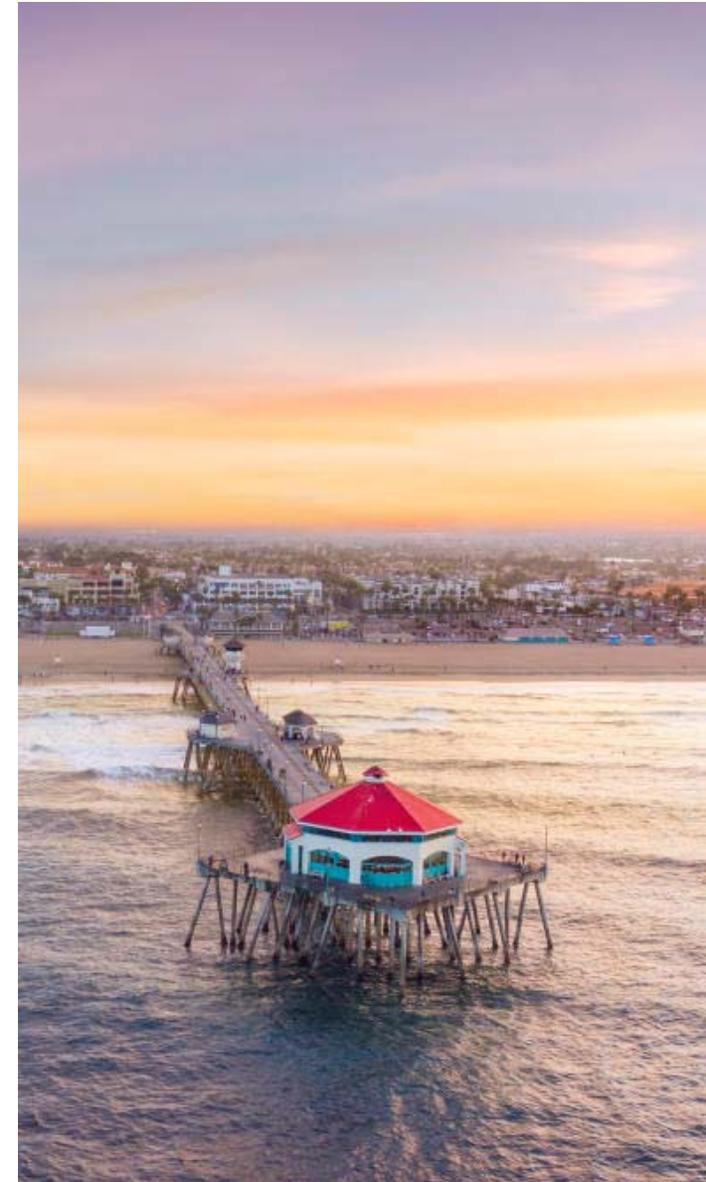
# Water & Sewer Rate Adjustment

Finance Commission

April 24, 2024

# Purpose and Need

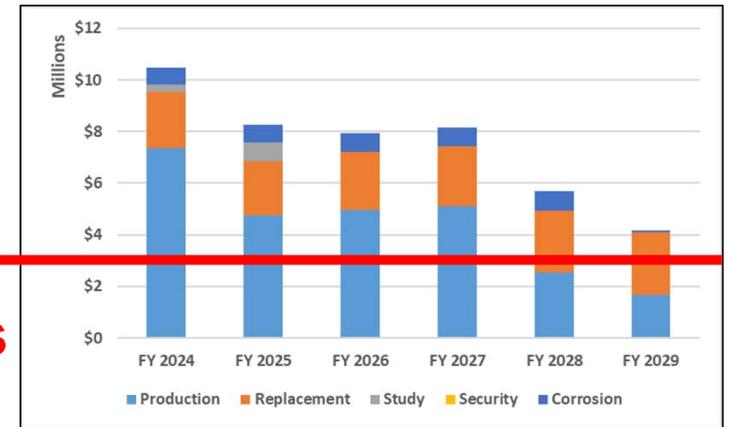
- **60+ year-old utility infrastructure**
  - Aging well field is losing capacity
  - Sewer lift station replacement/rehab
  - Insufficient water pipeline replacement
- **Maintain safe and reliable water and wastewater service**
  - Ensure revenue sufficiency
  - Capital replacement funding
  - Maintain adequate reserves



# Water Master Plan and CIP

- Evaluates water system from 2020 through 2040
- Identifies key projects over next 20 years
- \$167 million in projects

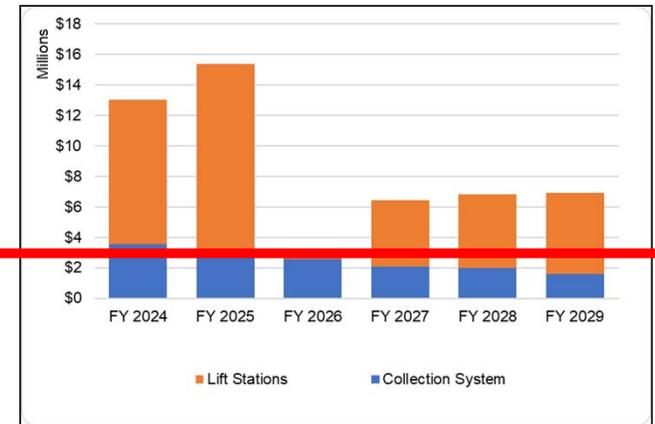
**Avg. CIP  
\$3.2 million  
past 5 years**



# Sewer Master Plan and CIP

- Evaluates sewer system from 2020 through 2040
- Identifies key projects over next 10 years
- \$74 million in projects

**Avg. CIP  
\$2.4 million  
past 5 years**



# Water & Sewer Rate Studies

- Conducted per Prop 218 and industry standards
- Factors Considered in Determining Rates
  - Operating costs impacted by recent inflation
  - Fund key capital improvement program (CIP) projects
- Findings and Recommendations
  - Adjust revenues to eliminate deficit and meet target reserves by end of study period, FY 2028-29
  - No change to rate components/categories
  - No change to reserve methodology



# How did we get here?

- **2011-2014** – No increases to water rates, capital charge non-existent
- **2015-2018** – Rates were adjusted, capital charge introduced in 2018
- **2019-2023** – Rates frozen in 2020 due impacts from the COVID-19 Pandemic
  - Costs to run the system increase significantly, electrical/utility increased by 45.1%, construction increased by 38.5%



# Factors Driving Adjustments

- Aging Infrastructure/Deferred Maintenance
  - Well Failure = \$2.3 million added import water cost per year
  - Estimated Cost of New Well = \$5.8 million
  - Time to Design and Build a New Well = 3 years (approximate)
- Wholesale Water Costs (2024)
  - OCWD (85% groundwater) = \$688 per acre-foot (+10.3% increase)
  - MWDOC (15% import) = \$1,465 per acre-foot (+16.6% increase)
- Inflation = higher labor and material costs
- New laws and regulations



# Water Rate Components

- **Fixed Meter Charge** - funds the operations and maintenance of the water system
- **Capital Charge** - funds the capital improvements needed to the system per the Water Master Plan
- **Commodity Rate** - pass-through cost of purchasing water from Metropolitan Water District and Orange County Water District
- **Private Fire Line Fee** – for costs directly related to fire protection (*only applies to properties with a dedicated, private fire line service*)



# 5-Year Water Meter Fee

Table 1-3: Current and Proposed 5-Year Fixed Meter Charges, Monthly Basis

Meter Size	Current FY2023/24	Proposed FY2024/25	Proposed FY2025/26	Proposed FY2026/27	Proposed FY2027/28	Proposed FY2028/29
3/4"	\$18.23	\$19.31	\$21.14	\$22.94	\$24.43	\$25.53
1"	\$30.45	\$32.17	\$35.23	\$38.22	\$40.70	\$42.53
1 1/2"	\$60.71	\$64.34	\$70.45	\$76.44	\$81.41	\$85.07
2"	\$97.18	\$102.94	\$112.72	\$122.30	\$130.25	\$136.11
3"	\$212.77	\$225.19	\$246.58	\$267.54	\$284.93	\$297.75
4" Compound	\$303.93	\$321.69	\$352.25	\$382.19	\$407.03	\$425.35
4" FM	\$425.35	\$450.37	\$493.16	\$535.08	\$569.86	\$595.50
6" Compound	\$607.67	\$643.38	\$704.50	\$764.38	\$814.06	\$850.69
6" FM	\$972.31	\$1,029.40	\$1,127.19	\$1,223.00	\$1,302.50	\$1,361.11
8" Compound	\$1,604.98	\$1,029.40	\$1,127.19	\$1,223.00	\$1,302.50	\$1,361.11
8" FM	\$1,701.59	\$1,801.45	\$1,972.59	\$2,140.26	\$2,279.38	\$2,381.95
10" FM	\$2,674.09	\$2,830.85	\$3,099.78	\$3,363.26	\$3,581.87	\$3,743.05



# 5-Year Water Capital Charge

Reduced CIP (revised)

	Current	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
3/4"	\$4.00	\$4.08	\$4.16	\$4.24	\$4.32	\$4.41
1"	\$6.67	\$6.80	\$6.94	\$7.08	\$7.22	\$7.36
1 1/2"	\$13.33	\$13.61	\$13.88	\$14.16	\$14.44	\$14.73
2"	\$21.33	\$21.77	\$22.21	\$22.65	\$23.10	\$23.56
3"	\$46.67	\$47.63	\$48.58	\$49.55	\$50.54	\$51.55
4"	\$66.67	\$68.04	\$69.40	\$70.79	\$72.21	\$73.65
4" Fire Meter	\$93.33	\$95.26	\$97.17	\$99.11	\$101.09	\$103.11
6"	\$133.33	\$136.08	\$138.80	\$141.58	\$144.41	\$147.30
6" Fire Meter	\$213.33	\$217.73	\$222.08	\$226.52	\$231.05	\$235.67
8"	\$373.33	\$217.73	\$222.08	\$226.52	\$231.05	\$235.67
8" Fire Meter	\$373.33	\$381.02	\$388.64	\$396.41	\$404.34	\$412.43
10" Fire Meter	\$586.67	\$598.75	\$610.73	\$622.94	\$635.40	\$648.11

# 5-Year Commodity Rate

Component	Current	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
Wholesale Cost (OCWD + MWDOC)			\$2.9423	\$3.1924	\$3.3999	\$3.5529
Estimated Pass-through Increase			\$0.1128	\$0.3570	\$0.4853	\$0.6495
<b>TOTAL</b>	<b>\$2.4034</b>	<b>\$2.6870</b>	<b>\$3.0551</b>	<b>\$3.5494</b>	<b>\$3.8852</b>	<b>\$4.2024</b>

- Wholesale unit rates are ESTIMATED based on the projected OCWD and MWDOC rates and charges
- If wholesale rates are higher than predicted, the City will pass through the increase in the wholesale water purchase costs
- City has NO CONTROL over this rate increase component



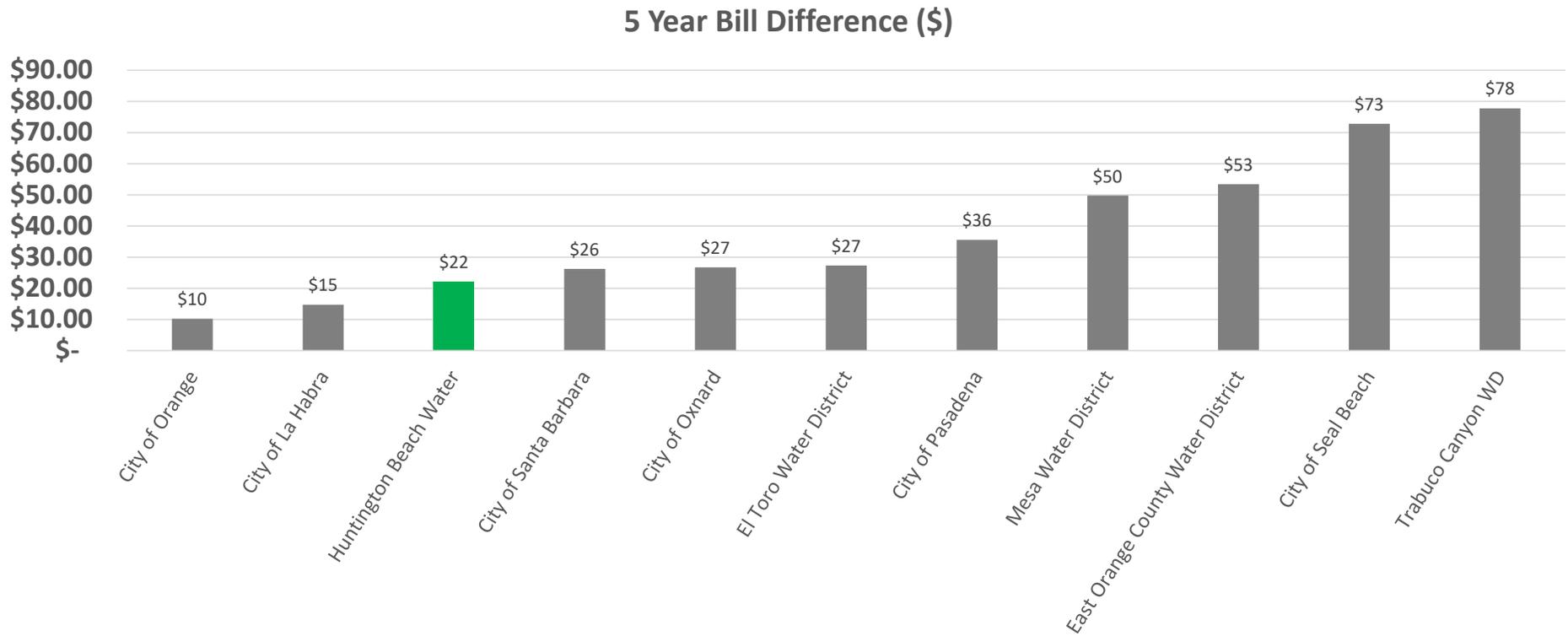
# 5-Year Private Fire Service Charge

Table 1-7: Current and Proposed 5-Year Private Fire Service Sprinkler Charge, Monthly Basis

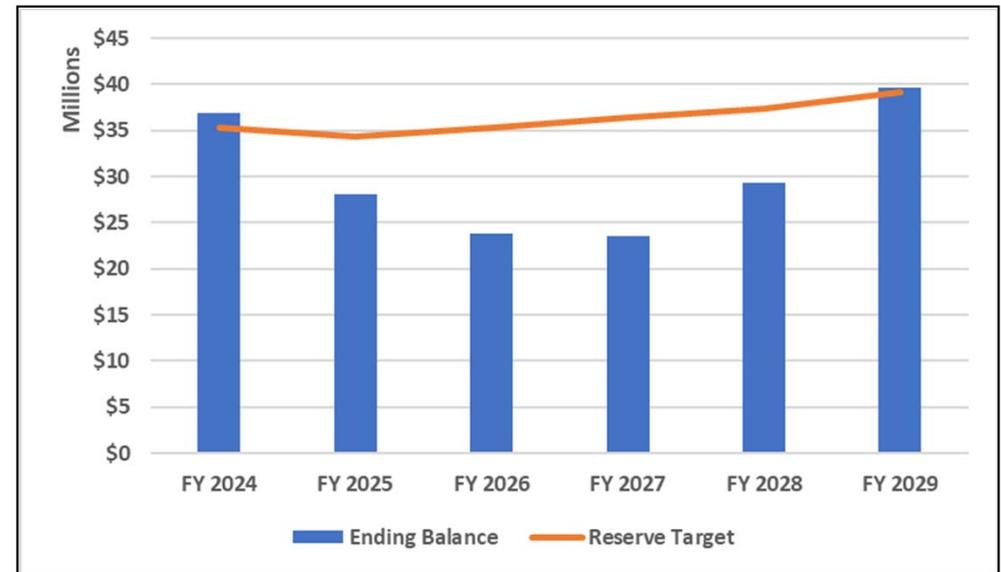
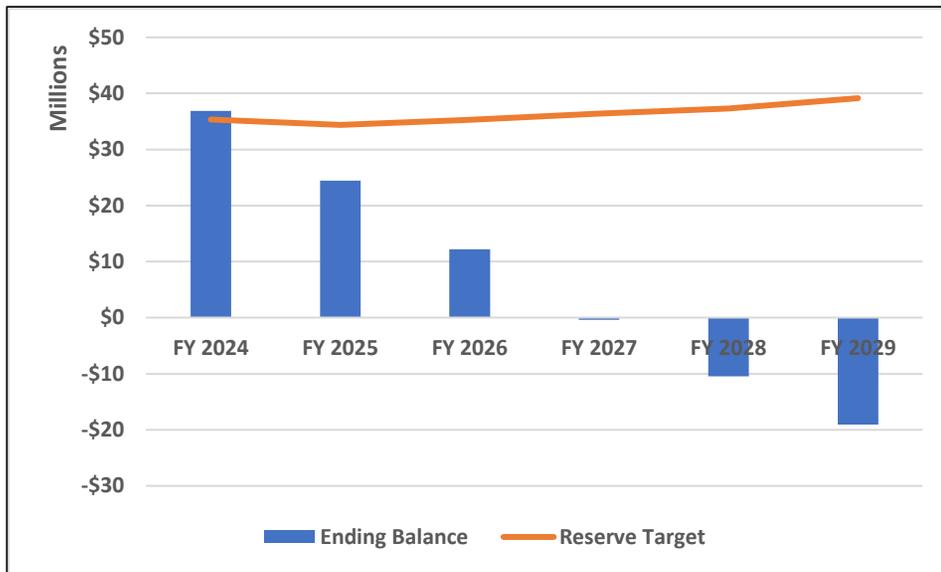
Meter Size	Current FY2023/24	Proposed FY2024/25	Proposed FY2025/26	Proposed FY2026/27	Proposed FY2027/28	Proposed FY2028/29
3/4"	\$3.65	\$0.29	\$0.32	\$0.35	\$0.37	\$0.39
1"	NA	\$0.29	\$0.32	\$0.35	\$0.37	\$0.39
1.5"	NA	\$0.82	\$0.90	\$0.98	\$1.04	\$1.09
2"	\$10.04	\$1.74	\$1.91	\$2.07	\$2.20	\$2.30
3"	\$14.90	\$5.05	\$5.53	\$6.00	\$6.39	\$6.68
4"	\$20.08	\$10.75	\$11.77	\$12.77	\$13.60	\$14.21
6"	\$30.11	\$31.21	\$34.17	\$37.07	\$39.48	\$41.26
8"	\$40.15	\$66.51	\$72.83	\$79.02	\$84.16	\$87.95
10"	\$49.88	\$119.60	\$130.96	\$142.09	\$151.33	\$158.14
12"	\$59.92	\$193.19	\$211.54	\$229.52	\$244.44	\$255.44



# 5-Year Water Rate Impact (\$)



# Status Quo vs. Proposed: Water

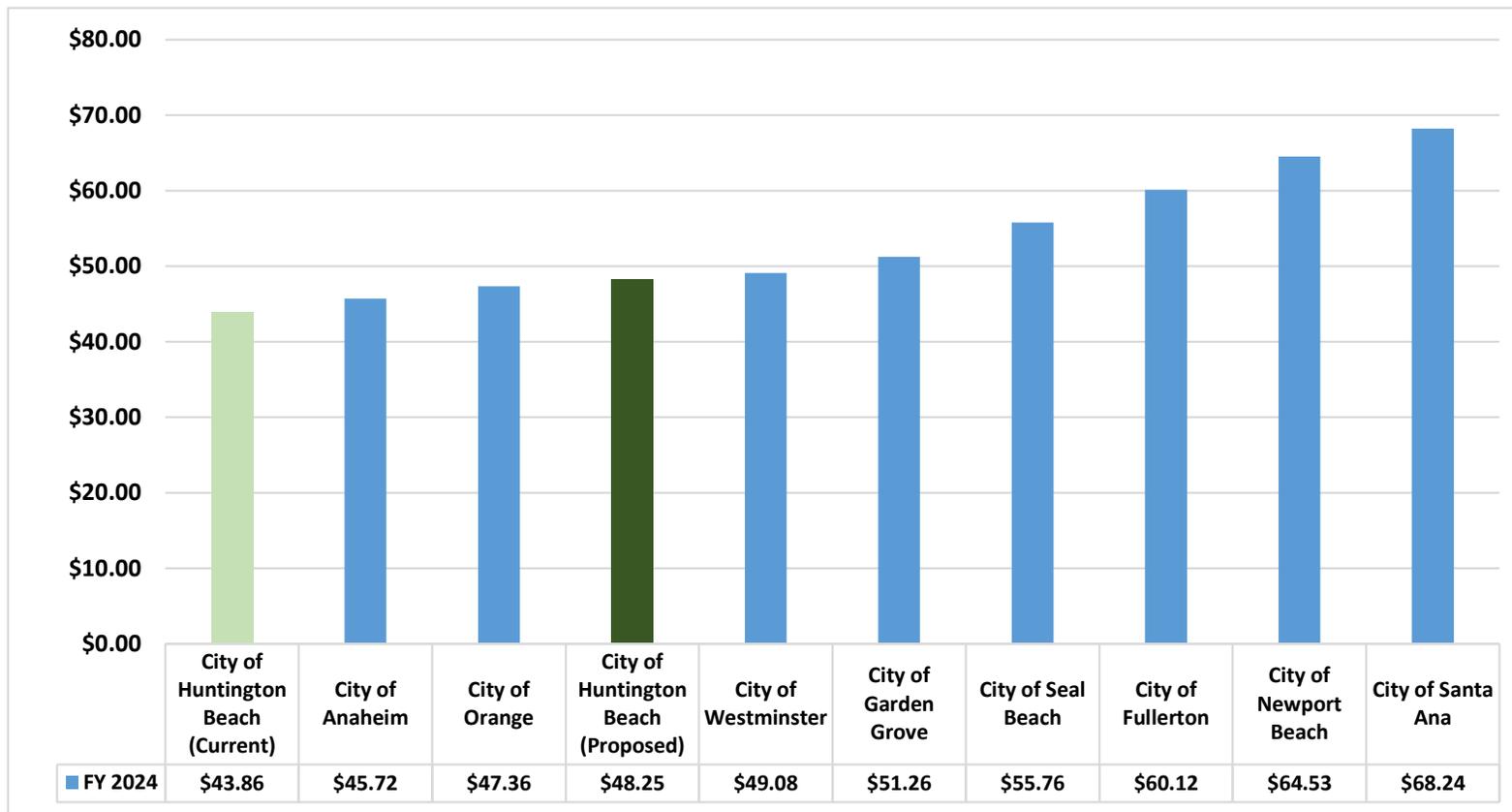


- The water system is a public health and safety issue. Ensuring that we have appropriate reserves protects the health and safety of our residents.
- NOTE: Water funds can ONLY be used for the for the acquisition, construction, reconstruction, maintenance, and operation of water facilities.



# SFR Water Rate Comparison

(Single Family Residential, 3/4" meter, 9 CCF = 6,732 gallons)



# 5-Year Sewer Rate

*Table 4-2. Current Rates and Proposed Wastewater Rates, Current and FY 2024 – FY 2029*

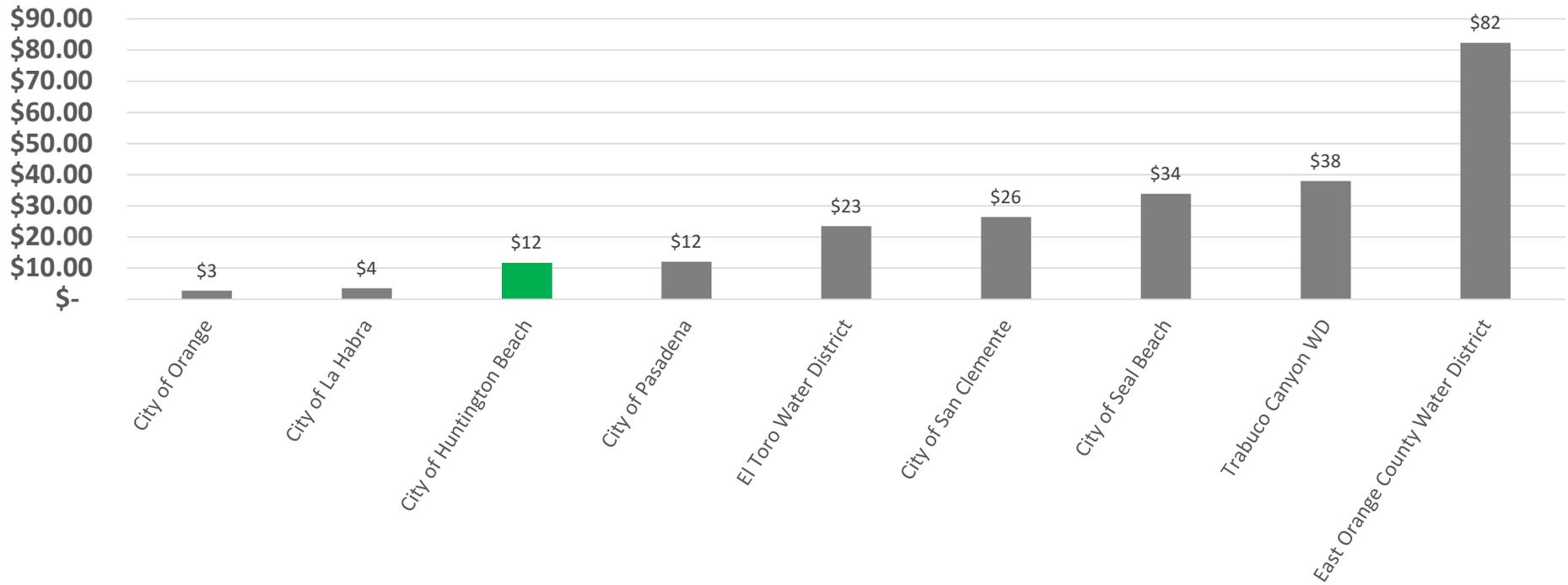
Customer Class	Current Rates	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>SFR</b>	\$10.98	\$12.43	\$14.48	\$16.87	\$19.57	\$22.70
<b>MFR</b>	\$9.10	\$9.15	\$10.66	\$12.41	\$14.40	\$16.70
<b>CII</b>	\$12.74	\$23.05	\$26.85	\$31.29	\$36.29	\$42.10
<b>K-8</b>	\$2.26	\$2.48	\$2.89	\$3.36	\$3.90	\$4.52
<b>High School</b>	\$3.51	\$3.72	\$4.33	\$5.04	\$5.85	\$6.78

- Single-family and multi-family residential billing units based on dwelling units
- Commercial, industrial, and institutional billing units based on number of units or size/type of meter
- Education customers based on average daily attendance

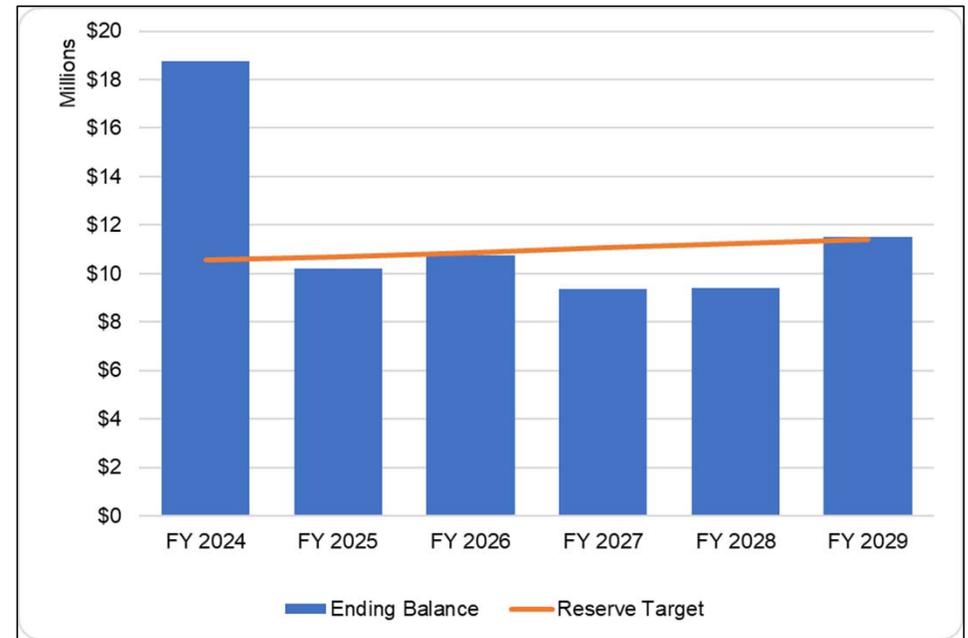
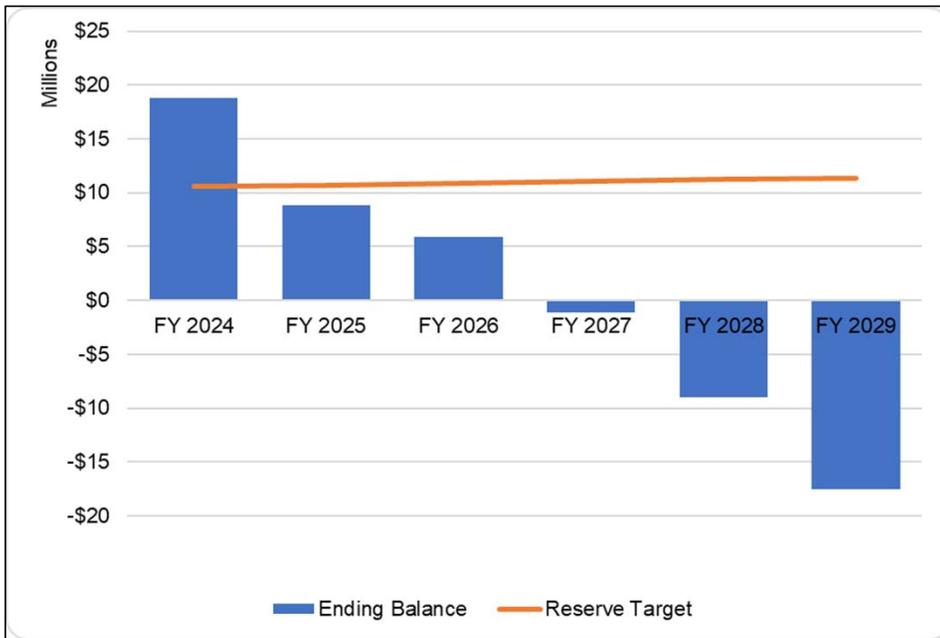


# 5-Year Sewer Rate Impact (\$)

5 Year Bill Difference (\$)



# Status Quo vs. Proposed: Sewer

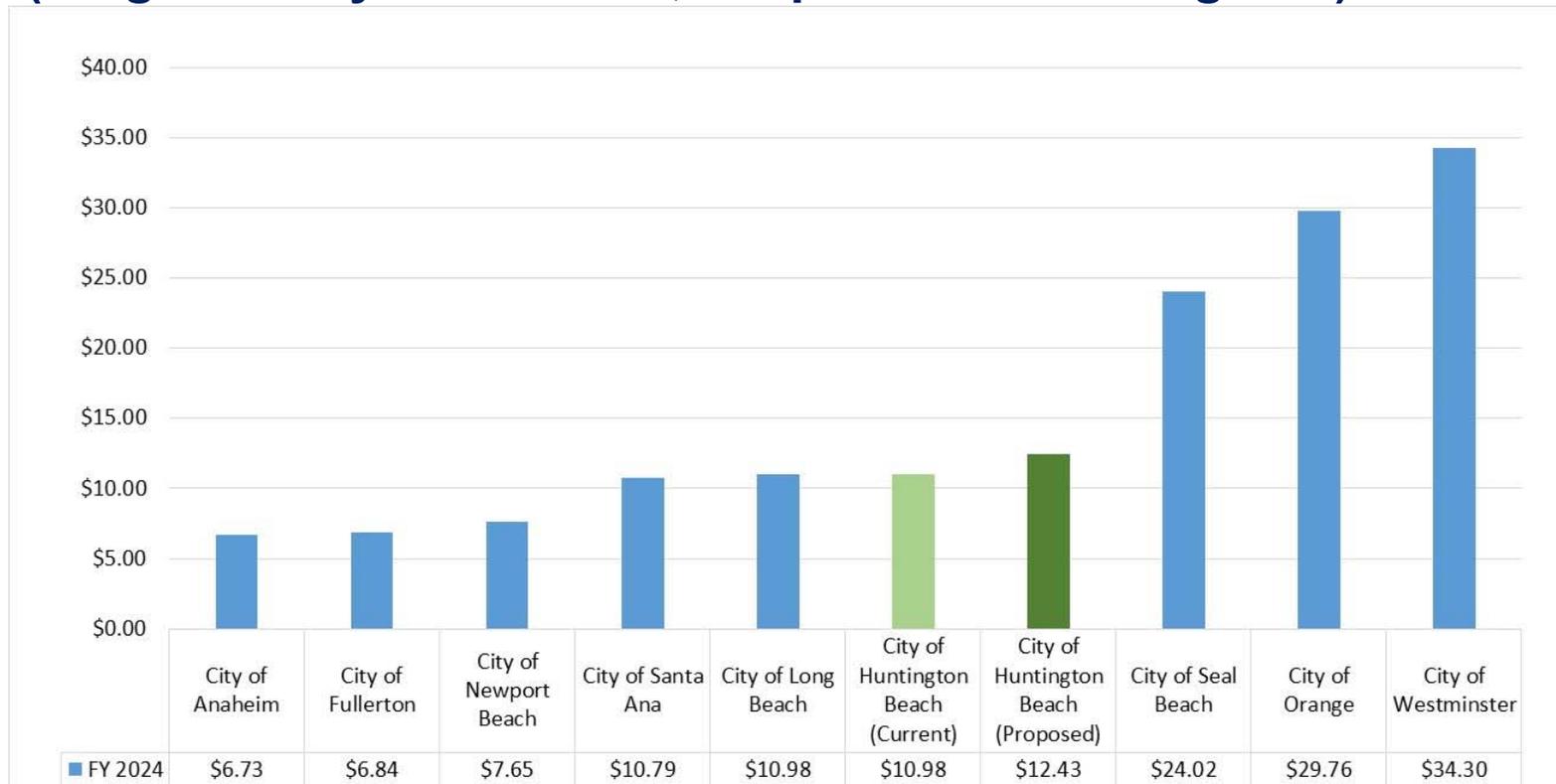


- The sewer system is a public health and safety issue. Ensuring that we have appropriate reserves protects the health and safety of our residents.
- NOTE: Sewer funds can ONLY be used for the for the acquisition, construction, reconstruction, maintenance, and operation of water facilities.



# SFR Wastewater Rate Comparison

(Single Family Residential, 1 equivalent dwelling unit)



# Reduced CIP Scenario

(Single Family Residential, 3/4" meter, 9 CCF = 6,732 gallons)

	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
<b>Consumption Rate</b>	\$21.63	\$24.18	\$27.50	\$31.94	\$34.97	\$37.82
<b>Fixed Meter Charge</b>	\$18.23	\$19.31	\$21.14	\$22.94	\$24.43	\$25.53
<b>Capital Charge (REDUCED)</b>	\$4.00	\$4.08 <del>\$4.76</del>	\$4.16 <del>\$5.66</del>	\$4.24 <del>\$6.74</del>	\$4.32 <del>\$8.02</del>	\$4.41 <del>\$9.54</del>
<b>Sewer Charge (REDUCED, CIP Only)</b>	\$10.98	\$11.90 <del>\$12.43</del>	\$13.32 <del>\$14.48</del>	\$14.66 <del>\$16.87</del>	\$16.12 <del>\$19.57</del>	\$17.73 <del>\$22.70</del>
<b>Total</b>	<b>\$54.84</b>	<b>\$59.47</b> <del>\$60.68</del>	<b>\$66.12</b> <del>\$68.78</del>	<b>\$73.78</b> <del>\$78.49</del>	<b>\$79.84</b> <del>\$86.99</del>	<b>\$85.49</b> <del>\$95.59</del>

# SFR Sample Bill Impacts

(Single Family Residential, 3/4" meter, 9 CCF = 6,732 gallons)

Capital Charge Scenario	Avg. Annual Impact (\$)	Avg. Annual Impact (%)	5-Year Impact (\$)	5-Year Impact (%)
100% CIP	\$8.15	12%	\$40.75	74%
Reduced CIP (25% less impact)	\$6.13	9%	\$30.65	56%

# Water CIP Projects (Reduced)

Project Name	Cost (\$)
Well 14 (NEW) – City of Westminster	7,221,000
Well 15 (NEW) – Location TBD	7,221,000
OC-35 and OC-9 Corrosion Control - WOCWB	5,670,000
Well 8 Replacement/Rehabilitation	3,230,000
Manganese Treatment System at Well 3A	2,200,000
Well 4 Rehabilitation	1,500,000
Citywide Well Assessment	300,000
Water Well 16 (NEW) - Location TBD	7,221,000
Groundwater Master Plan	217,000
Lead and Copper Rule Inventory Study	50,000
Water Master Plan	289,000
Urban Water Management Plan	289,000

# Water CIP Projects (Reduced)

Project Name	Cost (\$)
Annual Pipe Replacement	9,928,500
OC-44 Corrosion Control	2,475,000
OC-44 Scour Protection	396,000
8" Pipe Replacement – Humboldt Bridge Rehab	144,000
Well 3A Chlorine	831,000
Well 4, 7, 13 Chlorine	5,109,000

# Deferred Water CIP Projects

Project Name	Cost (\$)
Well 1A, 5, 6, 9, 10 Chlorine	6,291,000
Edwards Hill Chlorine	1,234,000
Overmyer Chlorine	1,383,000
Well 13 Permanent Wellhead	2,888,000
Security at Wells 3A, 6	434,000
Annual Corrosion Control	376,000
SCADA Cybersecurity Upgrades	300,000
Electric Vehicle Charging Stations	1,500,000
Well Quality Emergency Mitigation Treatment	200,000

# Sewer CIP Projects (Reduced)

Project Name	Cost (\$)
McFadden	1,532,000
Edinger Sewer Murdy Channel to Beach Blvd	2,000,000
Odor Control for Edgewater LS	70,000
CCTV Video Inspection Program	500,000
Residential Overlay Program	1,650,000
PCH Restroom Sewer Lift Station	10,565,000
Sewer Lift McFadden	1,350,000
Humboldt	4,933,000
Davenport	4,500,000
Sewer Lift E Station (Gilbert)	4,350,000
Sewer Lift Lark & Warner	4,850,000
Sewer Lift New Britain & Adams	5,350,000
Sewer Lift Bushard & Pettswood	4,350,000

# Deferred Sewer CIP Projects

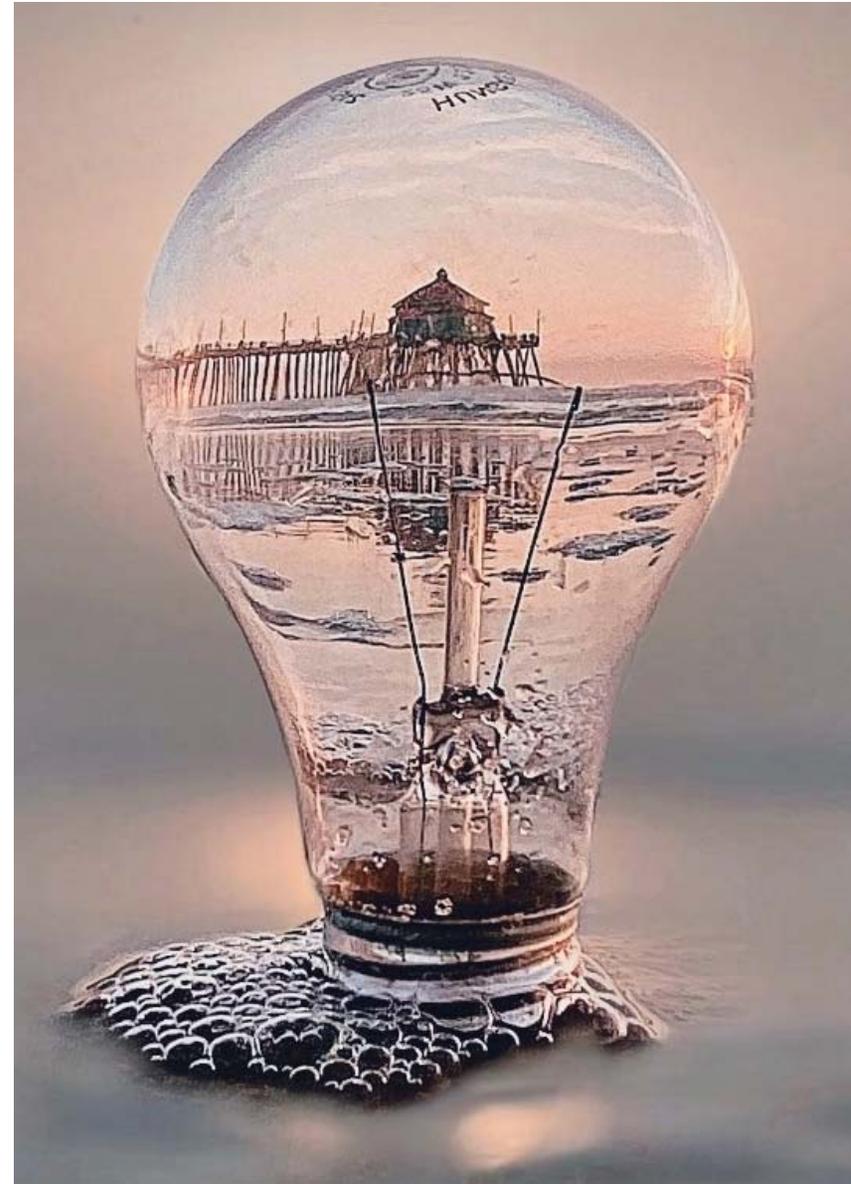
Project Name	Cost (\$)
Annual Sewer Lining Program	6,875,000
Graham Parkside	275,000
Station D	176,000
Station A	185,000
Ellis	357,500
Algonquin	203,500
Adams	313,500
Boeing	280,500
Edinger	93,500
Coral Cay	15,000
Station C	137,500
Edwards	143,000
Brookhurst	324,500
Brighton	247,500
Trinidad	13,000

# Recommended Action

- Adopt Resolution 2024-18 readopting and revising the City's Water Commodity Rates, per Section 14.12.040 of the HBMC
- Adopt Resolution 2024-20 adjusting water meter rates, including a capital surcharge and private fire line service fee, per Section 14.12.040 of the HBMC
- Adopt Resolution 2024-19 adjusting sewer service user charges per Section 14.54.020 of the HBMC



# Questions?



# A response to Lucy Dunn's critical commentary

By Claude Parrish

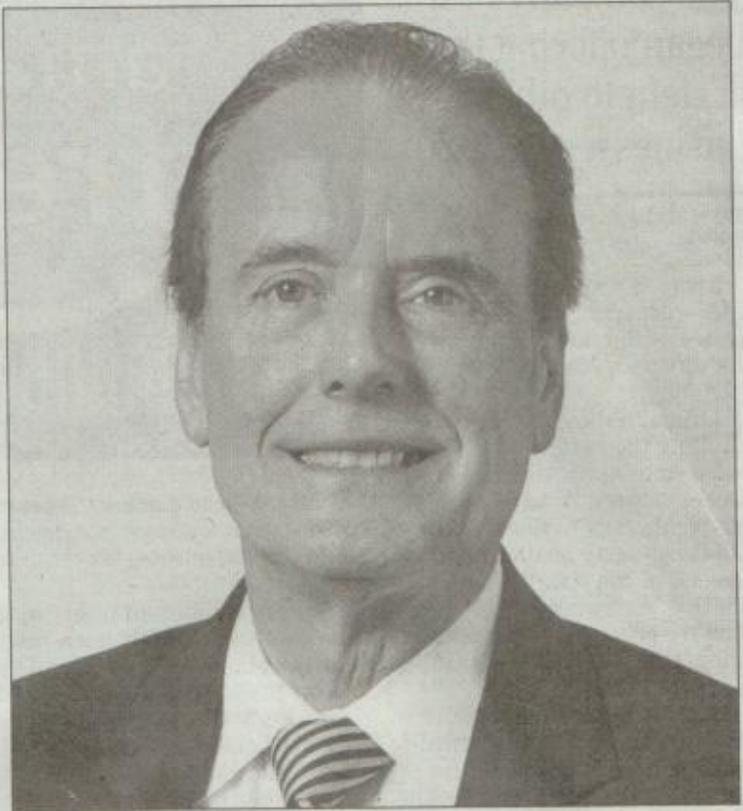
This is in response to Lucy Dunn's opinion piece in the Orange County Register's March 21, 2024, edition. The opinion makes "A call to halt OC Tax Assessor Claude Parrish's foolish 'rent tax' proposal." The opinion credits me with a questionable proposed possessory interest tax — a rent tax on the new middle class housing.

Nothing can be further from the truth. The assessment of taxable possessory interest that Ms. Dunn's credits me with has been tax law for over a hundred years. There is a longstanding judicial support for the taxable nature of private possession of publicly owned property. In 1939, existing California tax law was enacted in the Revenue and Taxation Code making it the first possessory interest law. The law required a tax imposed on the private possession of government property.

Over the last several years, local governments in California have received numerous proposals to authorize government-owned middle-income housing funded by tax-exempt bonds, where the government ownership of the property is exempt from property taxes. Supporters claim that these proposals will help local governments meet housing needs for the "missing middle" — i.e., those households who earn too much to qualify for low-income housing, but not enough to afford market price rents.

The heroes in your opinion piece are private, for-profit real estate developers (that ultimately become the project "administrator") who arrange for the purchase of an occupied apartment property from its owner, and, through a bond-financing arrangement, the developer earns substantial revenue, transfers the right to purchase the apartment property to a joint powers agency (JPA). Since the JPAs are government entities, the property is now exempt from property tax.

The so called stated purpose of the transfer of legal ownership is to create low- and moderate-income housing in communities where the JPAs have members, such as the city of Anaheim. However, none of these financing projects cre-



SOUTHERN CALIFORNIA NEWS GROUP

Orange County Assessor Claude Parrish shown in 2014.

ate any additional housing. Instead, they only transfer legal ownership of existing, occupied apartment properties to governmental owners. In most cases, the administrators receive an up-front fee worth millions upon transferring the right to purchase the apartment properties to the government authority, earn substantial annual fees for its continued control of the properties, and are the beneficiaries of bonds that will result in multi-million-dollar payments to them over the bonds' lives.

The taxable possessory interest is assessed on the Administrators under section 107 of the Revenue and Taxation Code and not the renters of the apartment complex. In fact, several county assessors wanted to assess the taxable possessory interest on the renters, but I convinced them that the correct entity that should be assessed are the property administrators.

By partnering with public JPAs, private for-profit businesses avoid paying property taxes on apartment purchases. Based on an analysis done by the Office of the Assessor, we believe that these transactions do not provide

public benefit compared to the lost tax revenue, there is no reduction because some rents are lowered, and a similar amount is added to the other tenants in the same building. Typically, the purchases are highly leveraged, they utilize unrated-tax exempt bonds which could have a high risk of default, and payout excessive fees to the investors. As the elected Orange County assessor, I am required to follow the property tax law in assessing the taxable possessory interest on the property administrators. Since these administrators make millions of dollars in revenue, there is no need for them to pass along the tax to renters and they still can make significant amount of profit even after paying the tax at issue.

The opinion piece asks that I return to being Orange County's middle-class taxpayer hero. I have never wavered in my commitment in helping all taxpayers. That is why I created a Taxpayer Advocate in my office, who has helped over 9,400 taxpayers with assistance with all property tax matters.

Claude Parrish is Orange County's assessor