

City of Huntington Beach Public Works Department Sewer Service Fund Performance Audit *Review of Fiscal Year 2018/19*

Introduction

On September 4, 2001, the Huntington Beach City Council adopted a Sewer Service User Charge and created the Sewer Service Fund. The Sewer Service Fund revenue is designated solely for the rehabilitation, replacement, repair and maintenance of City-owned sewers and lift stations. This is in accordance with the California Health and Safety Code Section 5470, and is included in the ordinance that adds Chapter 14.54 to the Huntington Beach Municipal Code. The ordinance established the Huntington Beach Public Works Commission as both the oversight committee and the final appeals board.

The Sewer Service Fund shall be subject to an annual review and performance audit by the Public Works Commission. The information presented in this report complies with Section 14.54.070 Annual Program Review. In addition, the City Council shall receive, at a regularly scheduled meeting, the recommendations of the Public Works Commission concerning fees, rates and charges proposed to be modified or added to the sewer service user charge. A public hearing on proposed charges will be held on May 20, 2019.

Program Overview

- Scheduled maintenance projects and minor emergency repairs will be completed within the allotted budget.
- Closed Circuit Television (CCTV) Inspection and cleaning of sewer mains.
- Operations and maintenance of the City's 27 sewer lift stations.
- Capital improvements including lift station design and construction work and the sewer lining program.
- A 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 City-owned right-of-way. Initially, the cost of the program exceeded the additional revenue generated by the adjustment to the sewer service user charge. Costs for this program have decreased significantly since its inception.

- The City Council adopted a reserve policy for enterprise funds in FY 14/15. The reserve policy for the Sewer Service Funds 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. This amount is \$2.6 million.
 - Capital Improvement Program (CIP): One-hundred percent (100%) of the average annual planned Capital Improvement Program for the following five years. This amount is \$3.2 million.
 - Emergency: an amount equal to the estimated cost, as determined by the City Engineer, to replace one sewer lift station. This amount is \$3.5 million.
 - The total reserve would amount to \$9.3 million.
- The Municipal Code states that the Consumer Price Index for Urban Consumers (CPIU) in Los Angeles, Orange, Riverside Counties established by the Bureau of Labor Statistics for the year over year for the month of November shall be used to calculate adjustments to sewer service rates.

Review of Fiscal Year 2018/19

Personnel and operating expenditures account for approximately seventy percent (70%) of the Fiscal Year 2018/19 Sewer Service Fund budget and are directed toward preventative and routine maintenance. The budget includes salaries and benefits, sewer line maintenance, CCTV pipeline and lateral inspection, lift station services, manhole upgrades, the sewer lateral program and cost allocation charges to the City's General Fund. The balance of the expense budget is earmarked for capital equipment replacement and capital projects, including slip lining, pipeline rehabilitation, and lift station replacement. In general, the Sewer Maintenance Section of the Utilities Division expends the operating and equipment replacement budgets, and the Engineering Division is responsible for the implementation of capital projects.

Sewer Lift Stations: Edgewater Sewer Lift Station (\$1.7 million in Sewer Development; \$2.3 million in Sewer Service Fund) is under construction. The bid for construction contract for the Slater Sewer Lift Station (\$2,500,000 in Sewer Development; \$1 million in Sewer Service Fund) was postponed until November 2019.

Design of the Saybrook Sewer Lift Station was started in FY 2018/19.

Sewer Lining: A construction contract (\$503,000) for the FY 2018/19 Sewer Lining project was awarded with construction to begin shortly after the end of FY 2018/19

Maintenance Activities: Totals for various maintenance activities are presented below.

CCTV Inspection: The sewer system is inspected through the use of Closed Circuit Television inspection. A contractor was employed to video inspect areas prior to sewer sliplining. City crews video inspect the sewer mains located in residential areas and low traffic volume streets.

Sewer Line Maintenance

- Routine cleaning of 888,229 linear feet of sewer pipe.
- Removal of 3,125 pounds of debris/grit during routine cleaning.
- Cleaned 225 enhanced cleaning areas (areas of sewer line cleaned from two times to twelve times per year) for a total of 322,870 linear feet through June.
- The Fats, Oils and Grease (FOG) program has cleaned 7,400 linear feet of sewer line around food service establishments and other areas with high grease concentrations.
- Sewer lateral repair program received and resolved 201 requests for repair to date.
- Inspected via Closed Circuit Television (CCTV) 86,071 linear feet of residential sewer lines and arterial mains.

Manhole Maintenance

- Cleaned and inspected 1,925 manholes.
- Repaired and recoated 34 manholes.
- Sprayed insecticide for roaches in 250 manholes.
- Projected installation of 21 Smart covers at additional “hot spots.”

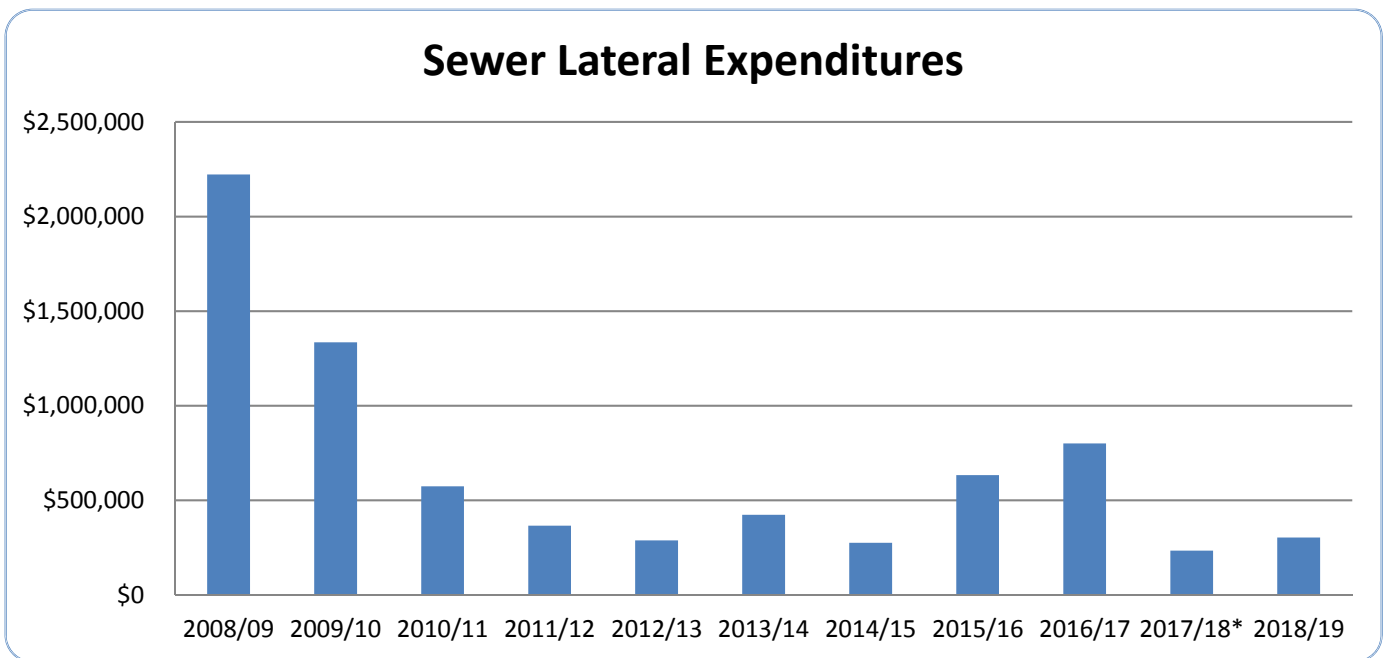
Sewer Lift Station Maintenance

- Inspected 27 lift stations three times a week and cleaned each station every two months.
- Cleaned and inspected 336 check valves.
- Cleaned 36 wet wells.
- Replaced 3 check valves.
- Replaced 1 gate valve.
- Disassembled and rebuilt 10 sewer pumps.
- Replaced 2 motors.
- Replaced 1 impeller.
- Replaced 9 sewer pumps.
- Replaced 5 submersible-type sewer pumps.
- Rebuilt 4 blower motors.
- Upgraded 6 control panels.
- Relocated 1 control panel above ground
- Installed 5 Smart covers

Sewer Lateral Program

Under the Sewer Lateral Program, the City assumed responsibility for the repair of all sewer laterals from the City-owned sewer main through the public right-of-way to the private property line. The property owner remains responsible for all costs of repair and maintenance of that portion of the sewer lateral on private property. This program is response driven as all work orders are generated in response to calls from residents and businesses. Expenditures on the Sewer Lateral Program have decreased significantly since the program was initiated in Fiscal Year 2008/09.

Staff had previously budgeted for the Sewer Lateral Program based on the expenditures in the first two years of the program. However, following reductions in calls after the first three fiscal years of the program, staff reduced the budget. As a response based program, demand is unpredictable.



*FY 2017/18 was a nine-month fiscal year

Projected FY 2018/19 Expenditures

Personnel	Original Budget	Revised Budget*	Projected
Salaries, Permanent	\$2,012,367	\$2,012,367	\$1,915,936
Salaries, Temporary	\$55,400	\$55,400	\$30,384
Salaries, Overtime	\$82,500	\$82,500	\$193,194
Benefits	\$1,335,488	\$1,335,488	\$1,335,488
Total Personnel	\$3,485,755	\$3,485,755	\$3,475,002
Operating			
Utilities	\$110,000	\$110,000	\$130,000
Equipment and Supplies	\$348,350	\$348,350	\$128,838
Repairs and Maintenance	\$1,753,000	\$1,950,973	\$1,235,296
Conferences and Training	\$24,000	\$37,000	\$33,534
Professional Services	\$250,000	\$361,733	\$128,310
Rental Expense	\$3,500	\$3,500	\$100
Interdepartmental Charges	\$1,772,723	\$1,772,723	\$1,772,723
Expense Allowance	\$5,800	\$5,800	\$5,800
Total Operating	\$4,267,373	\$4,590,079	\$3,434,601
Capital			
Vehicles	\$350,000	\$350,000	\$344,222
	\$350,000	\$350,000	\$344,222
CIP			
Improvements	\$1,580,000	\$5,916,881	\$1,001,906
Total CIP	\$1,580,000	\$5,916,881	\$1,001,906
Total	\$9,683,128	\$14,342,715	\$8,255,731

*Revised budget is carry-over encumbrances from prior fiscal year.

FY 2018/19 Projected Revenues

<u>Source</u>	<u>FY 17/18*</u> <u>Actual</u>	<u>FY 18/19</u> <u>Projected</u>
Customer Charges	\$8,329,120	\$11,781,389
Interest	\$2,593	\$588,035
Other	<u>\$32,466</u>	<u>\$8,703</u>
Total	\$8,364,179	\$12,378,127

*Shortened fiscal year

Projected FY 2018/19 Fund Balance

Beginning Balance 07/1/2018	\$22,198,503
Projected Revenues FY 18/19	\$12,378,127
Projected Expenditures FY 18/19	<u>(\$8,255,731)</u>
Projected End Balance 6/30/2019	\$26,320,899

Proposed FY 2019/20 Budget

Sewer Service User Charge Adjustments

In accordance with Section 14.55.030 Annual CPIU Adjustments, each Sewer Service User Charge shall be adjusted to reflect the annual percentage adjustment in Consumer Price Index for all Urban Consumers (CPIU) in Los Angeles, Orange and Riverside Counties established by the U.S. Bureau of Labor Statistics for the year over year change in the month of November. The purpose for annual adjustment of the rates is to ensure that the revenues continue to fully fund the needs of the program.

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 meter readings. A resolution was adopted by the City Council to authorize the daily rate methodology.

Over the past five fiscal years, the City has received a significant increase in sewer development revenues. These revenues are designated for the Sewer Development Fund (Fund 210), and can only be spent on increasing sewer collection capacity. Therefore, these funds have been used as part of the funding for the Edgewater and

Slater sewer lift stations and are proposed to be used as part of the funding for the upcoming Saybrook and New Britain projects. This has increased the Sewer Maintenance Fund (Fund 511) reserves. As a result, staff has included a reduction in sewer rates of \$1.00 for single family residential customers – prorated for other account types – in the Fiscal Year 2019/20 budget. Because this is a reduction in fees, no Proposition 218 protest hearing is required.

The following table shows the impacts of the proposed rate adjustment

Effect of Rate Adjustment on Current Sewer Service Charge

Customer Category	Charge Type	Unit	Current Charge	Rate Adjustment
Residential: Single-family & townhouses with individual meters	Flat rate for all customers in category	per unit per month	\$11.3541	\$10.3538
Multi Family Residential: All apartments, mobile homes and townhouses served by common meters	Flat rate for all customers in category	per unit per month	\$9.4183	\$8.5885
Regular Commercial/Industrial	Flat rate amount per Equivalent Dwelling Unit (EDU). EDU refers to either (1) the capacity of a customer's water meter in comparison to a standard ¾ inch meter, or (2) the number of tenant units that receive water service through the water meter, whichever is greater	per EDU per month	\$13.1770	\$12.0161
Public Schools: All public K-8 and high school districts with schools in the City	Flat rate per student per year with a different rate per student for K-8 and for high schools	High School per ADA per year	\$3.6264	\$3.3069
	ADA - Average Daily Attendance	K-8 per ADA per year	\$2.3352	\$2.1295

FY 2019/20 Proposed Budget

Personnel

Salaries, Permanent	\$2,012,668
Salaries, Temporary	\$56,550
Regular Overtime	\$82,500
Benefits	\$1,451,276

Total Personnel	\$3,602,994
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Operating

Utilities	\$110,000
Supplies	\$350,350
Repairs and Maintenance	\$1,629,000
Conferences and Training	\$24,000
Professional Services	\$298,000
Rental Expense	\$3,500
Cost Allocation	\$1,832,548
Auto Allowance	\$5,800
Other Expenses	\$75,000

Total Operating	\$4,328,198
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CIP (new)

Lift Station (Saybrook-construction)	\$1,500,000
Sewer Lining	\$1,000,000
Bridge Rehabilitation (sewer portion)	\$100,000
Residential Zone Maintenance	\$100,000
Vehicles	\$515,000

Total CIP	\$3,215,000
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TOTAL	\$11,053,192
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FY 2019/20 Proposed Revenue

Customer Charges	\$10,389,698
Interest	\$180,000
<u>Other</u>	<u>\$10,000</u>
Total	\$10,579,698

FY 2019/20 Projected Fund Balance

Projected Beginning Balance 7/1/2019	\$26,320,899
Projected Revenues FY 19/20	\$10,579,698
Proposed Expenditures FY 19/20	(\$11,053,192)
Anticipated Carry-Over Expenses	(\$5,148,398)
Projected End Balance 6/30/2020	\$20,699,007

FY 2019/20 Capital Projects

Lift Stations: A construction contract for the Saybrook Sewer Lift Station will be awarded, with \$3,800,000 budgeted for this project; \$1,500,000 from Sewer Maintenance Fund and \$2,300,000 from Sewer Development Fund. Funds in the amount of \$200,000 for the design of the New Britain Sewer Lift Station are included in the budget request in the Sewer Development Fund (210).

Sewer Lining: Sewer lining in the amount of \$1,000,000 is programmed in FY2019/20. A lining project is bid once a sufficient number of sewer defects are identified as part of the CCTV inspection program.