

Sewer Service Fund Performance Audit
Review of Fiscal Year 2020/21

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 as well as the sewer lateral program. 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.

PROGRAM OVERVIEW

- Scheduled routine preventative maintenance activities 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 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. This amount is \$4.6 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 \$3.5 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 \$12.7 million
- The Municipal Code states that the annual change in the Consumer Price Index for Urban Consumers (CPIU) in Los Angeles, Long Beach, Anaheim area established by the Bureau of Labor Statistics available in the month of November shall be used to calculate adjustments to sewer service rates.

REVIEW OF FISCAL YEAR 2020/21

Personnel and operating expenditures account for approximately seventy percent (70%) of the Fiscal Year 2020/21 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.

Capital Improvement Program (CIP) Projects

The Slater Sewer Lift Station was awarded in March 2020. The Contractor has experienced some delays and construction will likely end in Spring of 2022. Funding for the project is from the Sewer Service Fund (\$2,480,000), and from the Sewer Development Fee Fund (\$2,462,476).

The Fiscal Year 20/21 Sewer Lining Project was awarded in April 2020. Funding for this project is from the Sewer Fund \$772,187. It is anticipated the project will be complete by October of 2021.

The Saybrook Sewer Lift Station was awarded in June of 2020. The Contractor has experienced some delays and construction will likely end in Summer of 2022. Funding for the project is from the Sewer Service Fund (\$2,228,800), and from the Sewer Development Fee Fund (\$2,341,200).

The replacement of the McFadden Sewer Lift Station is in final design, with an anticipated award in September of 2021.

City Engineering Staff have proceeded with the design of the Davenport Sewer Lift Station and the Humboldt Sewer Lift Station. It is anticipated that these Lift Stations will be awarded in the Spring of 2022.

Maintenance Activities

Totals for various maintenance activities are presented below:

Closed Circuit Television (CCTV) Inspection:

- The City's sewer system is inspected through the use of CCTV equipment.
- Contractors are required to video inspect areas prior to sewer lining activities.
- City field crews video inspect the sewer mains located in residential areas and low traffic volume streets.
- Inspected a total of 32,481 linear feet of residential sewer lines and arterial mains via CCTV.

Sewer Line Maintenance

- Routine cleaning of 888,229 linear feet of sewer pipe.
- Removal of 1,125 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 777,041 linear feet to date.
- 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 205 requests for repair to date.
- Received 180 calls from residents and businesses.

Manhole Maintenance

- Cleaned and inspected 1,925 manholes.
- Repaired and recoated 25 manholes.
- Sprayed insecticide for roaches in 250 manholes.

Sewer Lift Station Maintenance

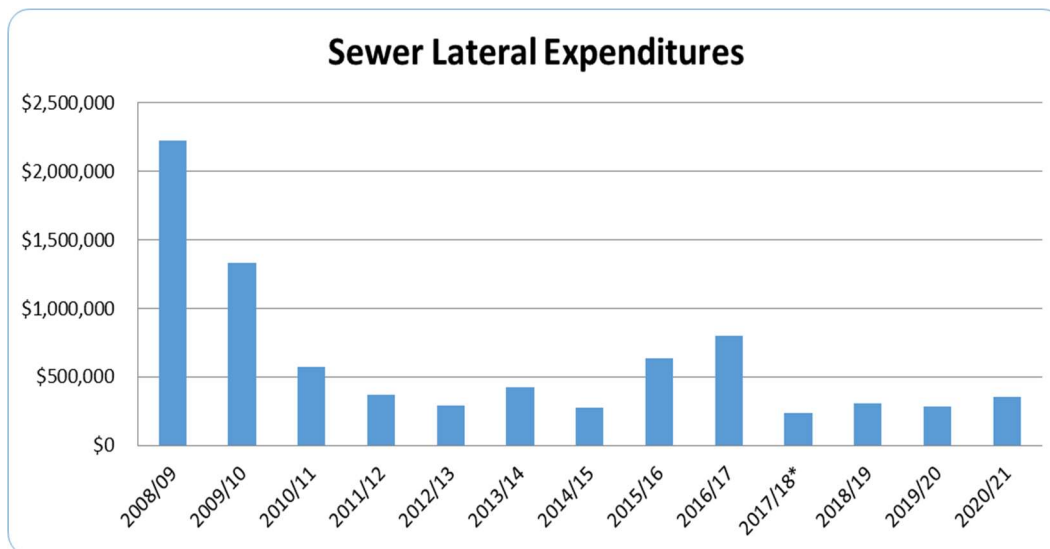
- Inspected 27 lift stations three times a week and cleaned each station every two months.

- Cleaned and inspected 138 check valves.
- Disassembled and rebuilt 8 sewer pumps.
- Cleaned and inspected 41 wet wells.
- 3 critical manual bypass operations performed at new sewer lift stations
- 2 pressurized force mains inspected and repaired
- 2 occurrences of high tide/flooding prevention
- 3 installations of high tide airbags for flood prevention
- 27 electrical/telemetry SCADA alarm tests

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

FY 2020/21 Expenditures¹

Personnel	Original Budget	Revised Budget²	Actual
Salaries, Permanent	\$2,249,613	\$2,249,613	\$1,883,302
Salaries, Temporary	\$57,035	\$57,035	\$37,954
Salaries, Overtime	\$150,000	\$150,000	\$117,308
Benefits	\$1,490,701	\$1,490,701	\$1,442,605
Total Personnel	\$3,947,349	\$3,947,349	\$3,481,168
 Operating			
Utilities	\$110,000	\$110,000	\$140,838
Equipment and Supplies	\$329,100	\$363,087	\$141,029
Repairs and Maintenance	\$1,960,000	\$2,108,392	\$1,391,947
Conferences and Training	\$4,100	\$4,100	\$14,887
Professional Services	\$450,000	\$501,778	\$94,121
Other Contract Services	\$60,000	\$60,701	\$56,829
Rental Expense	\$3,500	\$3,500	\$3,636
Cost Allocation	\$1,887,525	\$1,887,525	\$1,887,525
Auto Allowance	\$5,800	\$5,800	\$5,800
Other Expenses	\$75,000	\$75,000	
Total Operating	\$4,885,025	\$5,119,884	\$3,736,612
 Capital			
Vehicles	\$342,500	\$845,385	\$502,885
	\$342,500	\$845,385	\$502,885
 CIP			
Improvements	\$2,875,000	\$9,058,787	\$1,480,084
Total CIP	\$2,875,000	\$9,058,787	\$1,480,084
 Total	\$12,049,874	\$18,971,404	\$9,200,749

1. Actuals for Expenditures and Revenues are unaudited and may change slightly due to accruals.
2. Revised budget is carry-over encumbrances from prior fiscal year.

FY 2020/21 Revenues¹

<u>Source</u>	<u>Original Budget</u>	<u>Actual</u>
Customer Charges	\$10,722,168	\$10,899,707
Interest/Investment Income	\$5,000	-\$335,840
Other	<u>\$20,000</u>	<u>\$13,506</u>
Total	\$10,747,168	\$10,577,373

Projected FY 2020/21 Fund Balance

Beginning Balance 7/1/2020	\$26,653,066
Revenues FY 20/21	\$10,577,373
Expenditures FY 20/21	<u>(\$9,203,535)</u>
Projected End Balance 6/30/2021	\$28,026,904

PROPOSED FY 2021/22 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, Long Beach, Anaheim area established by the U.S. Bureau of Labor Statistics for annual change in CPIU available 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 water meter readings. A resolution was adopted by the City Council to authorize the daily rate methodology.

Since Fiscal Year 2011/12, 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, Slater, Saybrook and McFadden Sewer Lift Stations. This has increased the Sewer Service Fund (Fund 511) reserves. As a result, City Council approved a reduction in sewer rates of \$1.00 for single family residential customers – prorated for other account types – in Fiscal Year 2019/20. For Fiscal Year 20/21, the CPI-U based adjustments were deferred due to Covid. No rate adjustment is recommended for Fiscal Year 21/22 as well.

FY 2021/22 Proposed Budget

Personnel	Proposed Budget
Salaries, Permanent	\$2,582,657
Salaries, Temporary	\$97,500
Salaries, Overtime	\$100,000
Benefits	\$1,118,197
Total Personnel	\$3,898,354
Operating	
Utilities	\$140,000
Equipment and Supplies	\$353,600
Repairs and Maintenance	\$1,847,000
Conferences and Training	\$28,000
Professional Services	\$400,000
Other Contract Service	\$60,000
Rental Expense	\$3,500
Cost Allocation	\$1,410,498
Auto Allowance	\$5,800
Other Expenses	\$75,000
Total Operating	\$4,323,398
Capital	
Equipment	\$60,000
Vehicles	\$587,500
Total Capital	\$647,500
CIP (new)	
Lift Station (Humboldt-construction)	\$4,000,000
Sewer Lining	\$1,050,000
Residential Zone Overlay	\$100,000
Total CIP (new)	\$5,150,000
TOTAL	\$14,019,252

FY 2021/22 Proposed Revenue

Customer Charges	\$10,722,168
Interest	\$5,000
<u>Other</u>	<u>\$20,000</u>
Total	\$10,747,168

FY 2021/22 Projected Fund Balance

Projected Beginning Balance 7/1/2021	\$28,026,904
Projected Revenues FY 21/22	\$10,747,168
Proposed Expenditures FY 21/22	(\$14,019,252)
Anticipated Carry-Over Expenses	(\$5,900,000)
Projected End Balance 6/30/2021	\$18,854,820

The projected fund balance for the Sewer Service Fund at the end of the current fiscal year is \$18,854,820, about \$6.1 million above the reserve policy. The proposed budget has a \$3.3 million deficit, prior to accruing CIP carry-over funds of \$5.9 million. The intent is to gradually reduce reserves to the policy level while maintaining current service standards and avoiding the need for large rate adjustments.

The City still needs to replace 7 aging sewer lift stations. The current design and construction cost estimate for the replacement of these stations in today's dollars is approximately \$28 million.

Additionally, sewer lines in some areas of the City have experienced significant issues with calcification. Calcification is costly to remove and the extent of this issue is not yet known. If not addressed, calcification can lead to the reduction in flow capacity of sewer lines and increase the potential of sanitary sewer overflows.

The sewer lateral program continues to have unpredictable demand. Although current demand is less than the demand in FY 2008/09 when the program was introduced, it is possible that these expenses will continue to increase.

FY 2021/22 Capital Projects

Lift Stations: A construction contract for the Humboldt Sewer Lift Station will be awarded, with \$4,000,000 budgeted for this project; \$3,300,000 from Sewer Service Fund (511) and \$700,000 from Sewer Development Fund (210). Funds in the amount of \$280,000 for the design of the Davenport Lift Station are included in the budget request in the Sewer Development Fund. The Public Works Engineering staff are attempting to bid the Davenport Sewer Lift Station in 21/22. Funding for the award of the Davenport Sewer Lift Station will be requested from City Council, as this project is not included in the CIP for 21/22.

Sewer Lining: Sewer lining in the amount of \$1,000,000 is programmed in FY2021/22. A lining project is bid once a sufficient number of sewer defects are identified as part of the CCTV inspection program.