Sewer Service Fund Performance Audit

Fiscal Year 2025/26

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, updated July 2025:

- <u>Mapping</u>: 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: 31 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 fifth year of a five-year program to CCTV its entire system via third party 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.

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.

Engineering staff managed the four projects below, totaling $16.7 million in FY 2025/26.

McFadden Sewer Lift Station Phase 2 ($5.4 Million). 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 second phase of the project is currently underway and will be constructing a new larger wet well, meter vault and sewer force main and is anticipated to be completed in Spring 2027.

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. City Council awarded the project in November 2023. Construction was completed in September 2025.

Davenport Sewer Lift Station ($4.4 million). Davenport Sewer Lift Station was built in 1963 and is being replaced due to its age and insufficient wet well capacity. 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. The project is currently in the design phase and the City intends to advertise the project in Spring 2027, with construction anticipated to begin Summer 2027.

Sewer Lining Project ($2.5 million). The City has budgeted $2.5 million to line approximately 30,000 lineal feet of sewer mains throughout the City, as identified through CCTV inspection. This annual project will extend the service life of the City's existing sewer main lines. The City Council awarded the project in June 2026 and construction is anticipated to be completed in Summer 2027.

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 2025/26
Miles of Sewer Cleaned	363.6
Miles of Lateral Cleaned	324.6
Miles of Sewer Inspected	79.4
Number of Laterals Repaired	169
Number of Sewer Cleanouts Installed	128
Number of Sewer Lateral Investigations	169
Number of Manholes Treated (Roach Control)	1,334
Number of Stoppages Cleared	0
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	296
Number of FSE Enforcement Notice of Non Compliance	147
Number of FSE Enforcement Admin Citations	0
Number of Wet Wells Cleaned	150
Number of Lift Station Inspections	1,000

FY 2025/26 Expenditures[1]

	Original Budget	Revised Budget	Actual[1]
Salaries, Permanent	$3,220,253	$3,220,253	$2,448,430
Salaries, Temporary	$100,000	$100,000	$52,856
Salaries, Overtime	$150,000	$150,000	$138,816
Termination Pay Outs	$120,000	$120,000	$129,505
Benefits	$1,502,682	$1,502,682	$1,024,680
Total Personnel	**$5,092,935**	**$5,092,935**	**$3,794,286**
Utilities	$253,500	$253,500	$193,954
Equipment and Supplies	$120,000	$130,995	$72,711
Repairs and Maintenance	$1,925,000	$2,006,447	$1,461,237
Conferences and Training	$33,000	$33,000	$17,449
Professional Services	$690,000	$929,106	$400,784
Other Contract Services	$70,000	$71,000	$28,961
Interdepartmental Charges	$1,899,173	$1,899,173	$1,899,173
Expense Allowances	$7,800	$7,800	$8,182
Other Expenses	$96,000	$96,000	$46,448
Total Operating	$5,094,473	$5,427,022	$4,128,899
Improvements	$7,200,000	$17,587,782	$2,441,472
Equipment	$355,000	$355,000	
Vehicles	$175,000	$175,000	$60,303
Total Capital	$7,730,000	$18,117,782	$2,501,774
Total Expenditures	**$17,917,408**	**$28,637,739**	**$10,424,959**

[1] Actuals for Expenditures and Revenues reflects expenditures through June 2026. Invoices for purchases and work performed prior to June 30, 2026 will but paid after that date will be accrued to FY 2025/26.

[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 2025/26 Revenues

	Adopted Budget	Revised Budget	Actual
Total Revenues	**$14,450,000**	**$14,450,000**	**$15,595,792**

Projected Fiscal Year 2025/26 Fund Balance

Beginning Balance 7/1/2025	$25,136,888
FY 2025/26 Revenues (unaudited)	$15,595,792
FY 2025/26 Expenditures (unaudited)	$10,424,959
Fund Balance 6/30/2026	$30,307,721

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 2026/27 Budget

	Budget
Salaries, Permanent	$3,304,213
Salaries, Temporary	$106,000
Salaries, Overtime	$159,000
Termination Pay Outs	$127,200
Benefits	$1,628,544
PERSONNEL	$5,324,957
Utilities	$283,780
Equipment and Supplies	$123,600
Repairs and Maintenance	$2,182,750
Conferences and Training	$33,990
Professional Services	$794,200
Other Contract Services	$72,100
Interdepartmental Charges	$1,956,148
Expense Allowances	$8,034
Other Expenses	$98,880
OPERATING	$5,553,482
Equipment	$365,650
Improvements	$2,906,000
Vehicles	$442,000
CAPITAL	**$3,713,650**
Total Expenditures	**$14,592,089**

Fiscal Year 2026/27 Revenues

Customer Charges	$15,900,000
Total Revenues	$15,900,000

Fiscal Year 2026/27 Projected Fund Balance

Projected Beginning Balance 7/1/2026	$30,307,721
Projected Revenues FY 26/27	$15,900,000
Projected Expenditures FY 26/27	$14,592,089
Projected Carry-over Expenditures	$4,487,247
Projected End Balance 6/30/2027	**$27,128,385**

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.