

CITY COUNCIL COMMITTEE

INFRASTRUCTURE & FRANCHISE

Laura Hoffmeister, Chair
Dan Helix, Committee Member

5:30 p.m., Thursday, February 13, 2014

Building A, Garden Conference Room
1950 Parkside Drive, Concord

- A G E N D A -

ROLL CALL

PUBLIC COMMENT PERIOD

1. **CONFIRMATION** – of the second Thursday of the month at 5:30 p.m. as the regular meeting day and time for the Infrastructure & Franchise Council Committee.
2. **REVIEW** – Informational Report Concerning the Sewer Enterprise Fund Status and Projections. Report by Robert Ovadia, City Engineer.
3. **ADJOURNMENT**

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Distribution: City Council
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Scott Johnson, Assistant City Manager
Mark Coon, City Attorney
Victoria Walker, Community & Economic Development Director
Robert Ovadia, City Engineer
Administrative Services



**REPORT TO COUNCIL COMMITTEE ON
INFRASTRUCTURE & FRANCHISE**

TO THE HONORABLE COMMITTEE MEMBERS:

DATE: February 13, 2014

**SUBJECT: INFORMATIONAL REPORT CONCERNING THE SEWER ENTERPRISE FUND
STATUS AND PROJECTIONS**

Report in Brief

At its October 1, 2013 meeting, the City Council amended the FY 2012-13 Sewer Enterprise budget to provide funding for Central Contra Costa Sanitation District (CCCSD) charges that exceeded the adopted budget and requested that staff provide an update of the current status of the Sewer Enterprise fund to the Infrastructure and Franchise Committee (Committee). This report provides that information and discusses the impact that the budget amendment had on the beginning Sewer Enterprise fund balance for the current 2013-14 fiscal year.

The Sewer Enterprise Fund Balance at the start of FY 2013-14, after accounting for the October 1 budget amendment and subsequent payment to CCCSD for FY 2012-13 service charges, was approximately \$6,150,000. This balance is approximately \$1,400,000 greater than the starting balance in the adopted FY 2013-14 budget. It is anticipated that a portion of these funds will be used to purchase a new video inspection camera system for pipeline assessments and for capital project augmentation. The FY 2013-14 Sewer budget remains on track with the budget appropriation.

Background

During the development of the FY 2013-14 budget for Concord's Sewer Enterprise Fund it became clear that the City would face revenue shortfalls unless it reduced sewer related expenses and/or increased customer rates. These projected shortfalls were the result of (1) increased costs imposed by CCCSD which exceed previously budgeted amounts, and (2) on-going and increasing costs to address a backlog of capital maintenance and replacement of aged infrastructure. In June 2013, the City Council, pursuant to a Proposition 218 notice, approved a sewer rate increase at a level not to exceed \$39 per year per single family residence for each of the next two fiscal years (FY 2013-14 and FY 2014-15). The approved rate increases and the decision to defer a number of capital improvements to the system delayed the onset of revenue shortfalls until the 2015-16 Fiscal Year.

Attachment 1 is the adopted Sewer Enterprise Ten Year Projection, which shows the adopted two years of \$39 annual increases, and subsequently projects additional annual fee increases of \$39 through FY 2017, followed by an annual increase of \$42 through FY 2019 and an annual increase of \$44 through FY 2023. This funding level provides for relatively modest rate increases compared to the sewer system's needs.

The funding level will provide the same base levels of daily maintenance to the Sewer District's customers, and it relies on the use of contingency reserves in seven out of the next ten years and also delays replacement and major infrastructure repair projects, some for up to 5 years.

Attachment 2 describes the CIP deferrals required to maintain a positive fund balance, aligning with the funding level anticipated in the adopted Sewer Enterprise Ten Year Projection. This information is also summarized below:

- 10-year capital improvement program was reduced from \$27.6M to \$9.9M, primarily delaying replacement of aging sections of the system.
- Completion of the evaluation (condition assessment) of the entire City's collection system was delayed for 5 years.
- Lateral sewer line replacement program was reduced by over \$6M, however the replacement of lateral sewer lines will continue to be included as a component of mainline replacement projects.
- Cowell Road/BART Area sewer replacement project was delayed 3-4 years and separated into multiple projects. Limited spot repair funding will be available should emergencies arise in this area.
- Downtown Priority 3 sewer replacement project was delayed 4-5 years and separated into multiple projects. Limited spot repair funding will be available should emergencies arise in this area.

Projects currently under construction, which include Phase 1 of the Downtown and the Monty Gardens Sewer Replacement Projects, have not been impacted by these project deferrals. The extent of the Phase 2 Downtown Sewer Replacement Project is dependent on available funds after the close out of the Phase 1 project.

The approved Fiscal Year 2013-14 Capital Improvement Program (CIP) included \$1,065,000 for sanitary sewer-related capital projects. Of that amount, \$965,000 was designated for the Downtown Area Sanitary Sewer Upgrade project (primarily funded with prior year allocations) and \$100,000 for the Citywide Sewer Condition Assessment program. The balance of funding for the sewer system CIP projects was funded with prior year sewer enterprise fund allocations. The 10-year Capital Improvement Program projects that the FY 2014-15 CIP will include a \$750,000 allocation for Sewer Enterprise CIP projects.

Discussion

Because actual CCCSD charges for FY 2012-13 would not be known until after the adoption of the FY 2013-14 budget, City staff worked with CCCSD to estimate Concord's sewer system charges during the budget preparation process. Based on those discussions, approximately \$16.4 Million was reserved for anticipated CCCSD charges for FY 2012-13. The actual charges of \$14.8M received in September 2013 were less than the \$16.4M reserved for CCCSD charges, resulting in a net increase in the beginning FY 2013-14 (7/1/13) balance of the Sewer Enterprise Fund.

Attachment 3 provides a final accounting of the Sewer Enterprise Fund for the prior fiscal year (FY 2012-13). This document provides details on specific line changes from the adopted budget to the final actuals. Please note that the ending fund balance for FY 2012-13, also represents the beginning fund balance

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for the following FY 2013-14. The following table shows the adopted budget, estimated and actual CCCSD charges for FY 2012-13. The table helps to illustrate the necessity for the October 1 budget amendment and how the difference between the estimated charges and the actual charges resulted in an increase in the beginning Sewer Fund balance for the 2013-14 fiscal year.

<u>FY 2012-13 CCCSD Costs:</u>	Adopted Budget	Estimated Charges	Actuals	Difference (Est. Charges - Actuals)
CCCSD- Household Hazardous Waste	539,750	650,710	710,019	(59,309)
CCCSD Capital Projects 30% Reimbursement	2,450,000	4,109,797	3,666,050	443,747
<u>CCCSD - Treatment Plant Operations</u>	<u>9,852,000</u>	<u>11,661,541</u>	<u>10,434,142</u>	<u>1,227,399</u>
Total CCCSD Costs	<u>12,841,750</u>	<u>16,422,048</u>	<u>14,810,211</u>	<u>1,611,837</u>

After accounting for other line item changes in the Sewer Enterprise budget, the actual starting balance for FY 2013-14 is approximately \$6,150,000 (which is \$1,400,000 greater than the starting balance in the adopted budget). It is anticipated that a portion of these remaining funds will be used to purchase a new video inspection camera system for pipeline assessments and for capital project augmentation, subject to future Council authorization. In addition, it is intended that the remaining balance will be retained in the available fund balance to address emergency issues that may arise over the remainder of the fiscal year and will assist in keeping the Sewer Enterprise Fund in conformance with the approved budget. To-date, the Sewer Enterprise remains on track with the budget appropriation for FY 2013-14.

Possible Acceleration of Pavilion Debt Repayment to the Sewer Fund

A question was also asked regarding the acceleration of internal debt repayment from the Pavilion Fund to the Sewer Fund. During the negotiations with Live Nation, a number of scenarios were reviewed regarding repayment of the internal debt to the Pavilion Fund.

Of the \$8,000,000 in internal service debt owned by the Pavilion, \$3,000,000 is to the Sewer Fund, \$3,000,000 is to the Housing Fund (former RDA), and \$2,000,000 is to the Workers Compensation Fund. Beginning in the next fiscal year (FY 2014-15), the Pavilion is scheduled to begin repayment of the internal debt (principal and interest) at a rate of approximately \$422,000 annually. To date, the Pavilion Fund has only budgeted interest payments to the Sewer and Housing Funds as authorized by the original loan documents.

The Pavilion has and will continue to make payments toward the \$3 million balance of external debt until the debt is retired in FY 2020-21. Total payments toward the external debt will be \$622,000 in FY 2014-15. This payment decreases annually, and by FY2020-21, the final payment is \$281,000.

In the near term, acceleration of debt repayment to the sewer fund may be possible should the City Council prioritize repayment of the Sewer Fund over other internal funds. This would take the form of paying all or a significant portion of the annual \$422,000 that is planned for internal debt repayment to the Sewer Fund. However, reprioritization would create impacts to the other funds and should include confirmation by the City Attorney. Additionally, once the external debt is repaid in FY 2020-21, the City may be in a position to further accelerate repayment of the internal debt. In addition, any unforeseen capital needs at the Pavilion could affect the ability to repay the internal debt.

Public Contact

The Clayton City Manager and posting of the City Council Committee Agenda.



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Attachment 1 – Adopted Sewer Enterprise Fund Ten Year Projection

Attachment 2 – Approved CIP Project Capital Deferrals

Attachment 3 – Final Accounting for FY 2012-13

**Sewer Enterprise
Ten Year Projection
for the Year Ending June 30, 2014**

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>
Fund Balance 7/01	\$ 4,753,984	\$ 2,468,502	\$ 1,916,869	\$ 1,678,270	\$ 51,448	\$ 1,357,462	\$ 3,537,398	\$ 57,423	\$ 2,567,120	\$ 3,160,487
<u>Revenues</u>										
Sewer Service Fees	\$ 21,498,943	\$ 23,708,293	\$ 25,917,643	\$ 28,126,993	\$ 30,506,293	\$ 32,885,593	\$ 35,378,193	\$ 37,870,793	\$ 40,363,393	\$ 42,855,993
Sewer Connection Fees	435,000	455,000	600,000	600,000	800,000	824,000	849,000	874,000	900,000	927,000
Interest	238,228	225,775	202,454	149,311	148,174	259,094	261,187	213,204	378,640	522,234
Loan Repayment	-	79,131	81,109	83,137	85,215	87,345	89,529	91,767	94,061	96,413
Total Revenues	\$ 22,172,171	\$ 24,468,199	\$ 26,801,206	\$ 28,959,441	\$ 31,539,682	\$ 34,056,032	\$ 36,577,909	\$ 39,049,764	\$ 41,736,094	\$ 44,401,640
<u>Operating Expenditures</u>										
<u>City of Concord Costs:</u>										
Maintenance & Operations	\$ 4,810,996	\$ 4,957,265	\$ 5,059,339	\$ 5,205,747	\$ 5,339,311	\$ 5,476,904	\$ 5,617,876	\$ 5,764,965	\$ 5,915,391	\$ 6,069,926
Sanitary Sewer Repairs	269,475	277,372	302,289	302,289	380,413	385,087	397,000	408,910	421,177	433,812
Subtotal City of Concord Costs	5,080,471	5,234,637	5,361,628	5,508,036	5,719,724	5,861,991	6,014,876	6,173,875	6,336,568	6,503,738
<u>City of Concord Debt Service</u>										
Rehab Bond Payment-Priority 1 Refunding	761,082	761,521	764,265	761,863	766,517	765,175	763,039	766,708	770,083	766,638
Bond Payment-Gravity Connection In Lieu of Pumping To CCCSD	848,704	848,543	847,787	847,472	851,601	849,984	851,648	852,517	852,592	851,347
Subtotal City of Concord Debt Service	1,609,786	1,610,064	1,612,052	1,609,335	1,618,118	1,615,159	1,614,687	1,619,225	1,622,675	1,617,985
<u>CCCSD Costs:</u>										
CCCSD- Household Hazardous Waste	670,231	690,338	711,048	732,380	607,496	625,721	644,493	663,828	683,743	704,255
CCCSD Capital Projects 30% Reimbursement	3,638,813	3,563,946	3,054,566	5,466,855	4,528,638	5,396,295	12,081,720	10,957,352	12,068,382	12,430,000
CCCSD - Treatment Plant Operations	12,393,352	13,170,847	15,300,511	15,719,657	16,109,692	17,526,930	18,092,108	16,655,787	19,951,359	20,550,000
Subtotal CCCSD Costs	16,702,396	17,425,131	19,066,125	21,918,892	21,245,826	23,548,946	30,818,321	28,276,967	32,703,484	33,684,255
Total Operating Expenditures	\$ 23,392,653	\$ 24,269,832	\$ 26,039,805	\$ 29,036,263	\$ 28,583,668	\$ 31,026,096	\$ 38,447,884	\$ 36,070,067	\$ 40,662,727	\$ 41,805,978
Net Income(Loss)	\$ (1,220,482)	\$ 198,367	\$ 761,401	\$ (76,822)	\$ 2,956,014	\$ 3,029,936	\$ (1,869,975)	\$ 2,979,697	\$ 1,073,367	\$ 2,595,662
<u>Capital Projects:</u>										
City Projects	\$ 1,065,000	\$ 750,000	\$ 1,000,000	\$ 1,550,000	\$ 1,650,000	\$ 850,000	\$ 1,610,000	\$ 470,000	\$ 480,000	\$ 490,000
Total Capital Projects	\$ 1,065,000	\$ 750,000	\$ 1,000,000	\$ 1,550,000	\$ 1,650,000	\$ 850,000	\$ 1,610,000	\$ 470,000	\$ 480,000	\$ 490,000
<u>Other Financing Sources (Uses)</u>										
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers Out	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance - 6/30 with Contingency	\$ 2,468,502	\$ 1,916,869	\$ 1,678,270	\$ 51,448	\$ 1,357,462	\$ 3,537,398	\$ 57,423	\$ 2,567,120	\$ 3,160,487	\$ 5,266,149
Less: 10% Operations/Maintenance Contingency Reserve	2,151,000	2,238,000	2,413,000	2,712,000	2,659,000	2,903,000	3,644,000	3,404,000	3,862,000	3,975,000
Fund Balance - 6/30 without Contingency	\$ 317,502	\$ (321,131)	\$ (734,730)	\$ (2,660,552)	\$ (1,301,538)	\$ 634,398	\$ (3,586,577)	\$ (836,880)	\$ (701,513)	\$ 1,291,149

Sewer Enterprise Capital Improvement Plan - Impact of CCCSD Rate Increases

Legend

100,000 = Proposed with \$39 increase in FY's 13-14 & 14-15

200,000 = FY 12/13 Adopted CIP

Project Name	Prior Year	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	10-yr Totals
PJ 2185 Downtown Sewer	4,200,000	3,800,000	965,000										965,000
			0										0
PJ 2187 Sewer Main Extension	1,000,000												0
													0
PJ 2208 -Condition Assessment	275,000	200,000	100,000	100,000	100,000	100,000	100,000			100,000	100,000	100,000	800,000
			<i>200,000</i>	<i>200,000</i>	<i>200,000</i>	<i>200,000</i>							<i>800,000</i>
PJ 2209 Sewer Capital Facility Replacement	530,000	443,000		500,000	500,000	500,000	300,000	200,000	210,000	220,000	230,000	240,000	2,900,000
			<i>965,000</i>	<i>1,000,000</i>	<i>1,500,000</i>	<i>1,545,000</i>	<i>1,591,350</i>	<i>1,639,091</i>	<i>1,688,264</i>	<i>1,738,912</i>	<i>1,791,079</i>	<i>1,844,811</i>	<i>15,303,507</i>
PJ 2227 Cowell Road/ Bart Area Spot Repairs	300,000	0											0
													0
Willow Pass Road Trunk Sewer Upgrade		500,000											0
													0
Monte Gardens Sewer Replacement		900,000											0
													0
Citywide Lateral Replacement		400,000		150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	1,350,000
			<i>400,000</i>	<i>800,000</i>	<i>7,600,000</i>								
Cowell Road/Bart Area Sewer Replacement				0	250,000	800,000	850,000						1,900,000
			<i>1,900,000</i>										<i>1,900,000</i>
Downtown Priority 3 Projects				0	0		250,000	500,000	1,250,000				2,000,000
				<i>2,000,000</i>									<i>2,000,000</i>
Yearly Totals	6,305,000	6,243,000	1,065,000	750,000	1,000,000	1,550,000	1,650,000	850,000	1,610,000	470,000	480,000	490,000	9,915,000
			<i>3,465,000</i>	<i>4,000,000</i>	<i>2,500,000</i>	<i>2,545,000</i>	<i>2,391,350</i>	<i>2,439,091</i>	<i>2,488,264</i>	<i>2,538,912</i>	<i>2,591,079</i>	<i>2,644,811</i>	<i>27,603,507</i>

Attachment 3

**Sewer Enterprise Comparison Budget to Actual
For the Year Ending 6/30/2013**

	Adopted Budget	Adjusted Budget	Actual
Fund Balance 7/01	\$ 12,655,508	\$ 13,695,624	\$ 13,695,624
<u>Revenues</u>			
Sewer Service Fees	\$ 18,989,475	\$ 19,289,593	\$ 18,891,966
Sewer Connection Fees	400,000	400,000	521,157
Interest	326,000	311,000	162,568
Other			41,047
Loan Repayment	-	-	-
Total Revenues	<u>\$ 19,715,475</u>	<u>\$ 20,000,593</u>	<u>\$ 19,616,738</u>
<u>Operating Expenditures</u>			
<u>City of Concord Costs:</u>			
Maintenance & Operations	\$ 4,337,066	\$ 4,337,066	\$ 4,317,687
Sanitary Sewer Repairs	<u>255,538</u>	<u>255,538</u>	<u>37,705</u>
Subtotal City of Concord Costs	4,592,604	4,592,604	4,355,392
<u>City of Concord Debt Service</u>			
Rehab Bond Payment-Priority 1 Refunding	836,775	836,775	404,496
Bond Payment-Gravity Connection In Lieu of Pumping To CCCSD	<u>847,806</u>	<u>847,806</u>	<u>836,090</u>
Subtotal City of Concord Debt Service	1,684,581	1,684,581	1,240,586
<u>CCCSD Costs:</u>			
CCCSD- Household Hazardous Waste	539,750	650,710	710,019
CCCSD Capital Projects 30% Reimbursement	2,450,000	4,109,797	3,666,050
CCCSD - Treatment Plant Operations	<u>9,852,000</u>	<u>11,661,541</u>	<u>10,434,142</u>
Subtotal CCCSD Costs	<u>12,841,750</u>	<u>16,422,048</u>	<u>14,810,211</u>
Total Operating Expenditures	<u>\$ 19,118,935</u>	<u>\$ 22,699,233</u>	<u>\$ 20,406,189</u>
Net Income(Loss)	\$ 596,540	\$ (2,698,640)	\$ (789,451)
Less: 10% Operations/Maintenance Contingency Reserve	<u>\$ 1,718,000</u>	<u>\$ 2,076,000</u>	<u>\$ 1,913,000</u>
<u>Capital Projects:</u>			
City Projects	<u>\$ 6,243,000</u>	<u>\$ 6,243,000</u>	<u>\$ 6,669,885</u>
Total Capital Projects	<u>\$ 6,243,000</u>	<u>\$ 6,243,000</u>	<u>\$ 6,669,885</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	\$ -	\$ -	\$ -
Transfers Out	<u>-</u>	<u>-</u>	<u>(80,000)</u>
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (80,000)</u>
Fund Balance - 6/30 with Contingency	\$ 7,009,048	\$ 4,753,984	\$ 6,156,288
Fund Balance - 6/30 without Contingency	<u>\$ 5,291,048</u>	<u>\$ 2,677,984</u>	<u>\$ 4,243,288</u>