DATE: 11/10/2009

TO: Mayor and Council Members

FROM: Marc S. Grisham, City Manager

SUBJECT: Adoption of a City Council Resolution Amending Water and Sewer Rates

MEETING DATE: 11/16/2009

EXECUTIVE SUMMARY

The City Council of the City of Pittsburg adopted a multi-year water and sewer rate structure in May 2005 for the period through October 2009. Water and sewer utility rates have been evaluated and recommendations made by the City Manager to have these increases adopted by the City Council over the next multi-year period in accordance with Pittsburg Municipal Code requirements.

FISCAL IMPACT

The proposed increases to be adopted by City Council meet the financial requirements of the Water and Sewer Enterprise Funds for annual operations and maintenance. Additionally, the revenues generated will provide necessary capital improvement program funding and fund debt service obligations for the water and sewer enterprise funds. These increases assist the City in meeting State of California public health and safety standards, meet local public safety/fire suppression requirements, and rehabilitate and repair existing water and sewer system infrastructure over the next multi-year cycle.

RECOMMENDATION

Adopt the attached Resolution amending the City’s Multi-Year Water and Sewer Rates for a four-year period commencing January 1, 2010, and ending October 31, 2013.

BACKGROUND

On May 16, 2005, the City Council adopted Resolution 05-10290 Amending and Establishing Updated Water and Sewer Rates and Charges. Rates increases were adopted over a four-year period though November 1, 2009.
Staff has evaluated the operational increases in costs for the City of Pittsburg Water and Sewer utilities and has proposed an increase of 4% for the next four (4) years (2009-2012).

A Municipal Well Water Rate that was adopted and applied to Golf Course use starting in November 2005 is now being proposed to be applied to other City accounts as a result of the conversion of the Golf Course to the Delta Diablo Sanitation District (DDSD) recycled water for FY 2009/10.

SUBCOMMITTEE FINDINGS

On November 5, 2009, the City Council ad-Hoc Finance Sub-Committee consisting of Vice-Mayor Evola and Councilmember Johnson reviewed the proposed rate structure for water and sewer rates for the next four year period. The Sub-Committee addressed concerns over the existing capital deficiencies associated with both the water and sewer systems required to maintain the current infrastructure, and to highlight the debt service requirements of the water enterprise fund as it corresponds to ongoing annual financial obligations of the water fund. Additionally, comments were made with regard to comparative data on existing rate structures for surrounding municipalities in addition to the levels required to meet public health and safety and public safety/ fire suppression requirements city-wide.

STAFF ANALYSIS

Water Rate Analyses
The City needs to increase water utility rates to cover increased fixed and variable operational costs. Increased water operations costs include: (1) a 2009 increase of 4.3% in raw water cost from Contra Costa Water District; (2) a 2009 electric utility increase of 8% from PG&E, (comparing May 2008 and October 2009 electric rates); (3) an increase of 29% in water treatment plant chemical costs over the past two years; (4) personnel costs; and (5) regulatory costs. Therefore, staff proposes a cost increase for a single-family residential customer at $2.40 per month for customers that use 350 gallons per day (See Exhibit A - Water Rate Comparison sheet).

Failure to increase rates impacts our ability to provide funding for necessary capital rehabilitation and improvement needs to ensure our water system can be operated cost effectively, and with fewer disruptions in service. The City’s water system has experienced a high rate of water main and service connection failures. Some of these have been addressed in capital projects and by service line replacement done by staff in the past four years. These failures raise overall operational costs with night, weekend and other emergency responses as well as wasted water during these occurrences. These numerous failures also disrupt service to customers, and can also affect business operations for non-residential customers.

In the past four years the City has significantly increased the number of Water Capital Improvement Program (CIP) projects from previous levels. There are many additional projects that need to be done to reflect the need for water main replacement to maintain reliability in the older parts of the city. The funding sources for the CIP projects listed below are from Water Enterprise Funds plus developer contributions, grants, City Redevelopment Agency funds and Water Bonds. Projects include:

Water Capital projects
2006-08  Emergency treated water interties (includes $0.25 M grant) $0.5 M
2007-08  El Dorado Heights water lines 3,750 feet $0.7 M
Municipal Water Use
The City currently has a mixed method of charging itself for water use from the City of Pittsburg Water System. Some accounts are metered and are billed the current system-wide price, some are metered but not read or billed, and some are not metered. For optimum efficiency, staff recommends that they all be metered and read by staff to better conduct and facilitate a water audit analysis to determine water loss through the system. This would enable staff to determine which water loss reduction techniques are most cost effective, and would enable staff to prioritize them.

Golf Course
In Resolution 05-10427, the City adopted a discounted rate of $317.07 per acre foot of water used for the Delta View Golf Course, to reduce the Golf Course’s operational costs, stating that the water used at the Golf Course was designated as being from the City’s wells and therefore had a lower cost. This rate was based on actual well operational costs, and is 27% of the 2005 water system rate. With the removal of most of the Golf Course’s use from the City water system due to future conversion to the Delta Diablo Sanitation District’s (DDSD) recycled water project, staff anticipates that the Municipal Wells resource can be reallocated to other City uses. The City produces about 1,500 acre feet per year (AFY) from the wells. The Golf Course uses about 480 AFY of treated water, which will be reduced significantly when the recycled water project becomes fully operational in November 2009. With the addition of City Park, City Hall landscaping and Stoneman North landscaping to the recycled water project, the total treated water use of all the other City accounts will be about 600 AFY.

Fire Service Charges
Staff proposes that fire system charge increases be limited to 1% per year. This charge tends to affect smaller commercial customers the most. Most fire services are 6-inch or 8-inch.

Zone Pumping Charges
Zone Pumping charges were adopted to recover costs of pumping water to the higher elevations. This elevation charge was scheduled to be introduced after the Eden Financial System conversion was complete. This has been delayed for various administrative and operational reasons. These charges are proposed to be initiated in November 2010 and will
include lower rates than were previously proposed to reduce the initial utility cost increase to customers.

Existing Water Capital Deficiencies
Since 2005, the City has completed nearly $20M in much needed capital improvements to the City's again water infrastructure using a combination of water revenue bonds and redevelopment agency funding. However, water capital improvement deficiencies exist for improving existing low pressure areas, transmission mains, pump stations, fire flow coverages, and storage reservoirs which presently totals $13.0M in present dollar values. The proposed increases in water utility rates will assist the City in funding this much needed water infrastructure over the next multi-year period.

Water Fund Debt Service Financial Obligations
In April 2008, the City issued Water Revenue Bonds 2008. Total amount of this issue was $38.4 M. The subject bonds were issued by the City's Public Financing Authority to refund all the water revenue refunding bonds series 2005 and to pay the costs of bond issuance. Annual debt service requirements for the City's Water Enterprise are $2,632,424 in FY 2009/10.

Sewer Rate Analyses
The City needs to increase sewer utility rates to cover increased fixed and variable operational costs. Increased sewer operations costs include: (1) an increase in the cost of repair materials; (2) personnel costs; (3) regulatory costs; and (4) unfunded operational liability based on adoption of lower sewer lateral maintenance responsibility in January 2002. Failure to increase rates impact our ability to provide funding for necessary capital rehabilitation and improvement needs to ensure our collection system can be operated cost effectively and with fewer disruptions in service. Therefore, staff proposes a cost increase for a single-family residential customer at $0.54 per month. Rates have increase only 1% per year for the past four years.

Staff proposes that multi-family residential customers would not have an increase in rates. Their inside water use averages 23% less than single family customers and their monthly rates should reflect their lower average use. This will start the transition of their rates. This change was considered in 2005, but was not implemented because of the huge number of revisions that were already being made to the rate structures.

In the past four years, the City has significantly increased its expenditures on Sewer Capital Improvement Program (CIP) projects from previous levels. There are many additional projects that need to be done to reflect the need for sewer line and lower lateral replacement in the older parts of town. In addition we continue to have higher maintenance issues with undersized and older backyard sewers. Projects have been identified and prioritized as a result of the Closed Circuit Television (CCTV) inspection program that went from 2006-2008 and is continuing, but at a slower pace. The results of the CCTV inspection have identified maintenance needs and priorities for 123,135 feet (23 miles) of sewer pipe, including 17,260 (3.3 miles) feet that needs to be replaced or relined. This total length does not include the 29,720 feet (5.6 miles) of pipe that has been replaced since this project started.

The funding sources for the CIP projects listed below are from Sewer Enterprise Funds, plus developer contributions and City Redevelopment Agency funds. Projects include:
Sewer Capital Projects

2005-07  Closed Circuit television inspection and condition assessment of 20 miles of sewers $0.3M

2009  Sewer root control project for 20,000 feet of sewer

Sewer Line Replacement Programs:

2005-07  Knox, Marsh, City Park, Buchanan Park, Pueblo Dr, Carpino east, Columbia, etc  6,855 feet $3.5 M

2006-09  Railroad, Black Diamond, 8th, 9th, 10th, etc.  7,250 feet $1.4 M

2007-08  Marsh, Abbott, Goff, Crowley, Burton, Abbot, Kirker Creek siphon, etc.  4,800 feet $1.8 M

2007-08  El Dorado Heights  330 feet, 100 laterals $0.3 M

2009-10  Lorraine, Linscheid, Panoramic, Hillcrest, Carpino west, East Santa Fe, etc  6,000 feet $2.5 M+

Sewer Waste Water Debt Service Obligations

In March 2004, the City issued 2004 Waste Water Revenue Refunding Bonds. Total amount of this issue was $11.9 M. The subject bonds were issued by the City’s Public Financing Authority to refund all of the waste water revenue refunding bond series 1994 outstanding principal of $11.5M to fund a reserve account and to pay costs of bonds issuance incurred with connection with issuance, sale and delivery of the 2004 Bonds. Annual debt service requirements for the City's Sewer Enterprise are $922,703 in FY 2009/10.

Summary

Staff has concluded the operational outline for the proposed cost increases to the City’s Multi-Year Water and Service Rates which would become effective January 1, 2010. All legal and regulatory compliance with Prop 218 requirements has been achieved and required public notification completed to affected rate payers in both the City's water and sewer systems.

ATTACHMENTS:  Resolution Amending Water and Sewer Service Rates.
Exhibit A – Water Rate Comparison Sheet.
Utility rate changes – historic and proposed.
CCWD Notice of Public Hearing on Potential Water Rate and Charge Increases.
Draft 2009 Water System Master Plan (excerpts 7.1, 7.4 & 8.2).
Figure 7.1 Existing Fire Flow Analysis.
Figure 7.4 Low Pressure areas.
Table 8.2 Existing Water System capital deficiencies.
Sewer CIP Components worksheet
Protest letters and Letter of response

Report Approved By: Marc S. Grisham, City Manager
Report Reviewed By; Matt Rodriguez, Deputy City Manager/External Operations
Report Prepared By: Walter C. Pease, Assistant Director of Public Works