

# CITY OF HUGHSON

## CITY COUNCIL WORKSHOP

# WATER & SEWER



*The City's formal responses to the questions posed at the December 11<sup>th</sup> workshop and thereafter are attached.*

*Hughson City Council and City staff held an informational workshop regarding the City's Water & Sewer Operations and Infrastructure.*

*Information was provided on the condition of current water and sewer infrastructure; the history of the adopted water and sewer rates; and the City's future needs for these important utilities.*

## QUESTIONS AND ANSWERS

### At Workshop:

#### Sewer

**1. How many homes were built from 2000 – 2017? (15:01)**

Approximately 1,200.

**2. Were there taxes being charged to developers at the start of the growth in 2000 (16:00)? And at a sufficient amount?**

Yes. There were impact fees for new development in place prior to the construction of the new (sewer) plant (constructed in 2012). Impact fees were at a lower rate then. Much of the growth that occurred in the City happened prior to the new (sewer) plant being constructed.

**3. What are we doing to adjust the rate to account for growth now? (18:04)**

In 2009, the City approved a rate increase to fund the construction of a (sewer) plant that treated for nitrates in wastewater as now required by the State of California. The current sewer plant has enough capacity to serve approximately double the City's current population. The City currently puts about 0.9 million gallons of sewer into the (sewer) plant and has capacity for about 1.8 million gallons. In addition, the City collects \$13,755 per single family residential unit in development impact fees for sewer that go into an enterprise fund for new infrastructure needed because of the new development.

**4. How many cities or entities draw from the City of Hughson sewer enterprise fund? (20:05)**

Only one, Hughson. Enterprise funds can only be created for actions in which the government receives a fee in exchange for goods or services. Municipalities across the country segment off portions of their budget to prevent crossover of funds and ensure that what is collected is used directly for the service provided.

**5. What is current budget in the sewer enterprise fund? (20:50)**

Total annual budget of the sewer enterprise fund is approximately \$3.5 million.

**6. If the sewer plant was built based on housing estimates at the time, when the crash happened is that why we are being billed a higher rate since the debt is not being passed onto the additional houses that were thought to be built? (26:00)**

Yes. While the current sewer plant was planned for and designed during a high growth time, the sewer rate study, established in 2009, to fund the cost of the new (sewer) plant adjusted to a slow growth assumption in reaction to the economic recession. Therefore, the associated debt of the needed infrastructure was spread across fewer ratepayers.

**7. Based on projections of paying off (sewer) debt in 2028 and 2030, will (sewer) bill drop or be applied at the same price? (26:40)**

At that time, the City will need to evaluate the needs of its sewer infrastructure. The current (sewer) plant, constructed in 2012, was based on a life expectancy for its major components of 20 years regardless of the capacity used.

**8. How was the asset replacement amount (annual) determined? (34:25)**

The prior sewer rate study included an amount for depreciation. After the adoption of the sewer rate study, the City Council directed staff to increase the amount to the current level (\$444,836) to avoid placing the full burden of any asset replacement expenses on ratepayers. Asset replacement is intended for larger sewer infrastructure expenses.

**9. When the sewer rate survey was done did it consider subsidies that may have potentially come from City's general funds to offset fees paid by residents and the negative impact that it could have on general funds? When approved developments are built out (Province Place, Euclid North, Euclid South), what is the impact to the sewer enterprise fund? (43:10)**

The sewer rate survey did not consider any general fund offset. The development projects mentioned have a total of 150 units combined thereby creating that number of additional ratepayers. Additionally, each unit will pay the required sewer impact fee of \$13,755. In limited cases, a prepaid credit may need to be applied if a developer has paid impact fees for these units previously.

**10. Will the current sewer facility be able to accommodate growth from approved development? (45:30)**

Yes. The current (sewer) plant has enough capacity to serve an approximately doubling of the City's current population. Having adequate capacity for future growth was a component of the financing received by the City for construction of the (sewer) plant from the State of California. The City currently has approximately 2,000 sewer connections.

**11. What was the sewer development impact fee in place (2007) in comparison to the current level of \$13,755? (46:40)**

\$5,710.

**12. Can we expect the sewer rate to continue to increase? (47:37)**

Not necessarily. A CPI (Consumer Price Index) adjustment has been applied in the prior five years and it is standard practice to re-examine the rate after a five-year period. City staff anticipates looking at the sewer rate in the upcoming year and bring it back to the City Council for discussion and direction. In general, rates are increased when the City has large expenses that need to be funded (major improvement to the plant, construction of a new

plant, etc.) or when the revenue does not cover the City's expenses. Since the City has a recently constructed sewer plant, there is no immediately anticipated increase to the rate other than potential CPI adjustments.

**13. Are we looking into what is available with current sewer loans and interest rates? (50:18)**

Certainly. The City Council has directed City staff to explore restructuring or refinancing current debt or paying it down where possible. The current debt service may have penalties for early payment but City staff is looking to whether that is a feasible option. City staff is exploring all options including the reuse of City property formerly used for sewer needs to generate additional revenue through lease agreements to help offset expenses in this area.

Water

**1. Is it true that 60% of our water usage is for landscaping? (1:06:30)**

Yes, approximately 60% the water pumped by the City of Hughson go towards landscaping.

**2. Does the City of Hughson offer senior discounts (for people over 65) for utilities? (1:09:08)**

No, this is generally not allowed (for seniors or other group categories) per Proposition 218 and recent case law—a segment of the population cannot subsidize another segment of the population for utility services (and associated rates). The State is looking at low-income rates for utilities and will be preparing a report. It is assumed that municipalities that provide such discounts are funded from another source (i.e., general fund).

**3. I moved into Hughson in July, in Turlock I paid \$28.50 per month for water and if you went over 20-25 gallons you paid an excess fee, so Hughson's water rate doesn't have a minimum allotment for the water charge and then you pay extra for excess? (1:11:07)**

Different communities have different water rates. Some communities have a monthly allowance with the basic meter charge, which is already factored into that cost. That can be effective in certain communities.

For Hughson, it is more efficient to establish rates with the two components – a flat charge for fixed costs of the utility and a volumetric charge for variable costs. It more closely matches the City's cost structure and is the most common rate structure across the State.

**4. How many homes that will be constructed along Euclid near Well 8? (1:22:26)**

120 around Well 8 and an additional 40 (south of Samaritan Village) for a total of approximately 160 in the next 3-5 years.

After Workshop:

1. **How much of the \$22,000.00 (hook-up cost) goes to the sewer portion of the Enterprise Fund? If all the \$22,000.00 goes to the sewer portion and if 150 homes are added (within 3 years), I believe that adds \$3.3 million to sewer district—plus an additional \$1,100.00 / year / home—this represents quite an increase in income for our city. I believe I heard Jaime say the plant is working 24/7 and wouldn't have a problem handling the added homes (i.e. not too much added expense). How will this money be used?**

The current sewer development impact fee, charged at the time of a building permit, to each residential unit is \$13,755. 100% of these funds go to the City's Sewer Enterprise Fund. The City intends to use these funds to pay a portion of the current debt service and to pay a portion of future sewer replacement costs. Additionally, 100% of the sewer rates paid by each residence go to the Sewer Enterprise Fund. These rates are used to fund the operations of the City's sewer operations, including to pay off the debt service (loan) for the Sewer Treatment Plant, to operate and maintain the plant and system and to pay for personnel. You are correct, the current Hughson Treatment Plant has ample capacity to accommodate the expected growth in the City.

2. **I believe I would have appreciated a more complete explanation of the financing situation. Is there any way we can address the loan/loans involved? 3.4% seems high to me (maybe it isn't). Also mentioned was that some loans had pre-payment penalties (didn't sound right to me). How much investigating has been done regarding state/federal money/options available for a small incorporated City that has an average income of poverty level? Wouldn't it be nice if we could lower our monthly sewer bill by lowering our debt portion (almost 50% of the total sewer bill—also noticed that debt portion of water bill was substantially less).**

The loan for the Former Plant Expansion Project in the amount of \$6,780,000 was initially issued in 2008 at an interest rate of 4.2%. To reduce interest rates on outstanding debt, this loan was refinanced in March of 2013 at an interest rate of 3.4% with the length of the loan remaining intact.

Section 4 of the First Amendment to the Installment Sales Agreement states the following:

*"Section 6.2 of the Agreement is replaced in its entirety with the following: The City shall have the option to prepay the principal component of the Installment Payments, in whole, commencing on the twentieth Installment Payment Date, by paying the Installment Payment then due plus a prepayment price equal to the principal amount of the installment Payments to be prepaid together with a one percent (1%) prepayment premium thereon. The City shall give the Corporation written notice of its intention to exercise its option not less than thirty (30) days in advance of the date of exercise."*

The twentieth payment for the Former Plant Expansion Project will be on 3/7/18. At that point, the City has the option to prepay the entire principal balance due along with a prepayment premium of 1%.

The loan for the New Sewer Treatment Plant in the amount of \$20,871.789 was originally issued in 2010 through the California State Water Resources Control Board State Revolving Fund. This loan has an interest rate of 1% and can be prepaid without penalty.

Article II Section 3.1 (d) states:

*"The Recipient may without penalty prepay all or any portion of the outstanding principal amount of the Obligation provided that the Recipient shall also pay at the time of such prepayment all accrued interest on the principal amount prepaid through the date of prepayment."*

Last year, the City was able to save rate payers \$214,000 in interest payments by paying off a water loan. City staff continues to analyze the City's ability to restructure or pay down debt early. State funding often provides very favorable terms for "disadvantaged communities." The City currently has one sewer loan and one water loan with the State of California.

**3. I was surprised to hear no one ask some questions about TCP, can someone update us on how the State ruled on this containment and how does it affect our water supply?**

The State Water Resources Control Board voted in July to adopt a Maximum Contaminant Level (MCL) of 5 parts per trillion for TCP (1,2,3-Trichloropropane). Implementation of the new standard begins in 2018. Several City of Hughson wells have detected TCP at concentrations above the new MCL. The City has hired an engineering firm to study and make recommendations to the City regarding the most cost-effective and health-protective strategies for remediating TCP in the water supply. City staff expect that study to be completed in early 2018, at which point the City will take the steps needed to comply with the MCL. The City is also pursuing litigation against the parties responsible for the TCP contamination to recover the costs it will have to incur to comply.

**4. I read in the message history that a meeting was held quite a while ago about the sewer situation and the proposal for the rate hike. It said that they didn't get enough 'objections' from the community, that you needed a 51% share of votes saying NO to the rate increase which you did not get so "the rate increase is approved". My question is this... what if there had been a majority of Hughson residents who sent letters opposing the rate hike? Would the increase have not happened? And then what would have happened to our sewer system \$\$ account if the residents voted down a rate increase?**

Proposition 218 requires that local governments follow a strict defined process when setting fees such as sewer rates. The City must 1) inform property owners that a proposed increase

is being considered, 2) clearly demonstrate the basis on which these fees are calculated (the rate study), and 3) hold a public hearing at least 45 days after notice where the City hears all protests of the rate increase. Sewer rates are subject to "majority protest" meaning they cannot be passed if a majority of property owners impacted by the rate change submit written protests opposing the increase.

The current sewer rates were a condition of the funding agreement with the State of California for a low-interest Clean Water State Revolving Fund (SRF) loan for the required upgrade and expansion of the current wastewater treatment plant.

**5. Many of our residents get paid monthly and are forced to pay utilities late because they get paid on the 1st. Our check last month got held up in the mail somewhere and we were hit with a 10% late fee because it showed up a day late. What steps can we take to request the city of Hughson give their residents a 3-5-day grace period before slapping that substantial late fee onto their bills? Clearly, we residents of Hughson have to accept many difficult financial realities about how our monthly utilities are calculated and we have to pay a premium for our services. Plus, the city does not have the ability to offer us direct bill/pay, so we are forced to pay by snail mail whether we mail it or the bank mails it. Personally, I think it would be a kind and reasonable thing for the town to give us a small concession on our biggest monthly bill next to our mortgage payments by not assessing the late fee at the stroke of midnight.**

City staff will consider this request.

Current billing schedule is as follows:

First business day of the month – Utility Bills Processed.

Last business day of the month – Utility Bills Due.

The City currently offers ACH Auto Pay. This is a free service which eliminates the need to write a check and ensures payment is received before the due date. Payments are withdrawn from bank account on or about the 25<sup>th</sup> of each month. More information on this payment method is located on the City of Hughson's website at:

<http://hughson.org/wp-content/uploads/2017/03/Automatic-Payments.pdf>

