

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda date: May 17, 2010
Reviewed by: BP

SUBJECT: Consideration of Wastewater Financial Plan and Rate Review prepared by Bartle Wells Associates and Proposed Increase in Sewer Service Charge rates in response to new Environmental Regulations

FROM: Richard Cunningham, Public Works Manager
Randy Leptien, City Engineer

RECOMMENDATION

Adopt Resolution 2010-23, declaring the intention to authorize an increase in the sewer service charge by up to two dollars per month plus the previously authorized CPI adjustment in each of the next successive five years and then by the Consumer Price Index (CPI) through FY 2016/17.

BACKGROUND

Sanitary Sewer Overflows (SSOs) from sewer collection systems throughout California cities and communities have often caused beach closures, pollution of creeks and a threat to public health. A consensus has developed among the public, regulatory agencies and municipal sewer agencies that there is a need to prevent SSOs from public sewer systems.

In the San Francisco Bay Area, the Bay Area Clean Water Agencies (BACWA), which is a Joint Powers Authority comprised of wastewater treatment and collection agencies, and the San Francisco Bay Regional Water Quality Control Board (Regional Water Board), worked together to produce a guide for developing and implementing a Sanitary Sewer System Management Plan (SSMP). As a result of this collaborative effort, the Regional Water Board on July 7, 2005 issued new requirements for public sanitary sewer collection system agencies to develop and implement a SSMP in three phases over a three-year period.

During this same time, the State Water Resources Control Board (State Water Board) determined there is a need to adopt statewide regulations for collection systems in California to provide a statewide consistency in regulations. On May 2, 2006, the State Water Board adopted Statewide General Waste Discharge Requirements (WDR) for Sanitary Sewer Systems, Order No. 2006-003-DWQ. This Order required the development and implementation of a SSMP by all public sewer collection system agencies of California in several phases within 51 months of the adoption of the order.

In May of 2007, Staff submitted a report to the Council on the estimated increased costs that were required to develop and implement the SSMP. The staff report indicated that the increased funds were necessary for investigation and maintenance and that additional funds would be necessary if the investigations determined that an accelerated schedule for the rehabilitation and replacement of the City's aging sanitary sewer system was required. On July 2, 2007, the Albany City Council following a duly noticed and conducted public hearing approved an increase in the sewer service charges of \$8 per year and reaffirmed a previously approved increase in rates by the Consumer Price Index (CPI).

The SSMP is a document that describes the activities that the City uses to manage its wastewater collection system effectively and proactively. This document was developed in three phases utilizing the guidelines issued by the Regional Water Board and was completed in August of 2008. The City's SSMP provides for a programmed and proactive approach to the investigation and management of the City's wastewater collection system. SSMP activities include extensive video inspection, cleaning, root control, fats, oils and grease control, smoke testing, pipeline condition assessment and rating and capacity evaluation. The intent of the SSMP is to provide for a schedule of maintenance, investigations, rehabilitation and replacement of the City's aging wastewater collection system with the ultimate goal of eliminating SSOs from the system.

On July 6, 2009, following a public hearing, the Council approved the City's SSMP and considered a report from staff on the need to prepare a financial plan for the continued rehabilitation and replacement of the wastewater collection system according to the findings of the SSMP. On July 20, 2009 the Council approved a proposal from Bartle Wells Associates, Independent Public Finance Advisors of Berkeley, CA to prepare a Wastewater Financial Plan and Rate Review.

In May of 2009, the United States Environmental Protection Agency (EPA) issued an Administrative Order (AO) to EBMUD, the city of Albany and the other EBMUD satellite communities. Prior to the issuance of the AO, EBMUD and its satellites were permitted to discharge wastewater with less than secondary treatment at specified locations during rainfall events that exceeded a recurrence interval of 5 years. The AO prohibits this practice and requires EBMUD and its satellites to "tighten" up the collection system to "further" reduce rainfall infiltration and inflow as necessary to eliminate the wet weather discharges to the bay.

Since the late 1980s the City has been systematically rehabilitating its wastewater collection system. Over this period approximately one third of the total 35 miles of mainline and a proportionate length of service laterals have been rehabilitated or replaced. This equates to approximately one half mile of mainline and equal length of laterals per year or approximately two and one half blocks of sewers (on north south streets) per year.

In order to meet the requirements of the AO, the City will need to increase the rate at which aging wastewater collection facilities are rehabilitated and/or replaced. Again in very rough terms the average rate of replacement will need to increase to approximately five blocks per year. This will require an increase in the Capital Improvement Program expenditures. This increase was not included in the previously authorized increase in rates approved by the Council in 2007.

DISCUSSION

The Wastewater Financial Plan and Rate Review prepared by Bartle Wells Associates (the BWA Report) is attached. The BWA Report recommends that a minimum balance of consisting of 60% of the operating expense for the year plus a capital/emergency minimum reserve of \$1.5 million be maintained. The total minimum balance for 2010-11 would amount to \$2.8 million.

The BWA Plan indicates that current Sewer Enterprise Revenues total approximately \$2.3 million per year and that the Sewer Service Charge makes up nearly \$2.1 million of this total. In 2009/10 the City has budgeted Sewer Enterprise fund expenditures under four basic programs. The estimated expenses for each program within the fund for the 2009-10 fiscal year are:

Program Area	Budget
Operations and Maintenance	\$1,026,000
Spot Repairs and Rehabilitation	\$250,000
Bond Payments	\$629,000
SSMP Activities	\$196,000
Collection System Projects	\$500,000
Total	\$2,601,000

The excess of the total expense over the total revenue in 2009-10 is being paid from the balance in the Sewer Enterprise Fund. Staff anticipates that in order to meet the accelerated replacement rehabilitation and replacement schedule required by the AO issued by the EPA and the findings from the SSMP investigations conducted to date, that it will be necessary to increase the commitment to pipeline spot repairs and rehabilitation and to Collection System Projects in the future. This commitment to accelerated repair and replacement of the aging system is indicated in Table 7 of the report. As proposed, Capital Projects will increase by approximately 10% per year to \$1 million and then will increase by the Consumer Price Index (CPI) in each year thereafter.

Table 8 in the BWA Report is a projection of revenue and expense for the Sewer Enterprise Fund. This table includes the rate increase that will be necessary to achieve the required rehabilitation and replacement program and to maintain the minimum recommended balance of \$2.8 million at the end of each year.

The City's Sewer Service Charge, established in 1994, and is authorized under Chapter XV Article 15-1.7 of the Albany Municipal Code. Service charges are collected annually with County taxes. Prior to 1994, charges for sewer service were collected on the EBMUD utility bills.

Table 9 indicates that the required increase necessary to maintain the minimum recommended balance and accelerate the replacement program will vary from 11.7% in 2010/11 to 8.1% in 2014/15. Adjustments following 2014/15 would be made according to the CPI.

Table 10 in the BWA Report compares the Albany Sewer Service Charge with other EBMUD satellite sanitation agencies. In Table 10 Albany is currently the second highest of the agencies shown. Two things must be noted, however. First, Albany was one of the first communities in Northern California that committed to maintaining the lower lateral, following the installation of a standard two way cleanout which permit the City with access. Assuming that the upper and lower lateral are of equal length and further assuming that the total length of the lateral is approximately equal to parcel frontage, this commitment nearly doubles the amount of sewers that the City maintains, compared to agencies that do not maintain laterals. Therefore the effective Albany rate, when compared with other agencies is approximately one-half the amount indicated. This analysis makes the Albany rate very competitive with the other satellite agencies. The second thing to note, when comparing rates, is that several of the satellite agencies are proposing increases in response to the AO issued by the EPA.

The increase that has been proposed in the BWA Report is \$2.96 per month for the 2010/11 FY followed by an increase of \$3.00 per month for the next successive 4 years. The average annualized CPI for the 2009 calendar year was just 0.7% and the increase due to the increase in the CPI is just \$0.20. The balance of the increase would be \$2.76. Assuming a return to historical CPI adjustments it is reasonable to assume that the increase in the CPI in the 2010 Calendar Year (CY) will be 3%. The CPI component of the proposed \$3.00 increase in the 2011/12 would be equal to 3% * \$28.25 or \$0.94 and the remainder would be \$2.06. The table below indicates the estimated amounts of the CPI and remainder of the increase for the next 5 years assuming a 3% CPI.

FY	Monthly Rate	Proposed Increase	CPI Increase prev. CY	Estimated cpi increase	Remainder of Increase	Average Remainder of Increase
2008/09	\$ 23.84					
2009/10	\$ 25.29	\$ 1.45	0.032	\$ 0.81	\$ 0.64	
2010/11	\$ 28.25	\$ 2.96	0.007	\$ 0.20	\$ 2.76	\$ 1.98
2011/12	\$ 31.25	\$ 3.00	*0.030	\$ 0.94	\$ 2.06	\$ 1.98
2012/13	\$ 34.25	\$ 3.00	*0.030	\$ 1.03	\$ 1.97	\$ 1.98
2013/14	\$ 37.25	\$ 3.00	*0.030	\$ 1.12	\$ 1.88	\$ 1.98
2014/15	\$ 40.25	\$ 3.00	*0.030	\$ 1.21	\$ 1.79	\$ 1.98
2015/16	\$ 41.46	\$ 1.21	*0.029	\$ 1.21	\$ 0.00	

* Estimate

The average amount of the increase over the CPI is seen to be \$1.98. It is therefore proposed that the increase be an amount up to \$2.00 per year plus the previously authorized increase in the CPI for the next 5 years. Following this it is recommended that rates return to the increase in the CPI only.

PROCESS

In order for the City to increase the sewer service charge, a Public Notice must be sent to the record owner of each affected parcel. This procedure, to extend or increase fees, became effective on July 1, 1997, under Section 6 of Article XIII D of California Constitution.

The notice must indicate the amount, basis, reason and time of hearing. Within 45 days of mailing the notice, the City Council may then hold a hearing to consider whether an increase is appropriate. Written protests from a majority of property owners will prevent imposition of the fee or charge. These fees and charges for sewer service are not subject to a separate voting requirement. The notice must include instructions as to how protests are to be filed.

As proposed, the public hearing will be conducted on July 19, 2010 at which public comment will be invited and a report on comments oral and written protests received will be given by staff. Following the public hearing the Council may consider an increase not to exceed the amount stated in the notice, provided a majority protest does not exist.

FINANCIAL IMPACT

The estimated cost to mail the required public hearing notice to each property owner and conduct the hearing is approximately \$8,000.

If the proposed increase is not implemented the proposed sewer spot repair and capital replacement programs will have to be reduced to meet the funds available. This will increase the probabilities that SSOs will occur and expose the City to unknown costs relating to the response, cleanup and administrative penalties related thereto.

SUSTAINABILITY IMPACT

Reduction of SSOs will reduce the associated vehicle and pumping costs associated the response to SSOs. The elimination of SSOs will improve the quality of the Bay and the Creeks tributary to the Bay.

Attachments:

Wastewater Financial Plan and Rate Review dated May 2010 by Bartle Wells Associates
Resolution # 2010 -23
Draft Notice

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RESOLUTION # 2010-23

**A RESOLUTION OF INTENTION BY THE ALBANY CITY COUNCIL TO INCREASE
SEWER SERVICE CHARGES ANNUALLY, SETTING PUBLIC HEARING AND
DIRECTING THE MAILING OF NOTICES**

WHEREAS, the City Sewer Service Charge constitutes the primary revenue to the City of Albany for sewer maintenance and capital improvement projects; and

WHEREAS, the Section 6 of Article XIII D of California Constitution, which became effective July 1, 1997, provides procedures for new, extended or increased fees and charges; and

WHEREAS, in May of 2006, the State Water Resources Control Board (SWRCB) issued new Waste Discharge Requirements (WDRs) that require all sanitary sewer collection agencies within the State to implement (over a five year period) a new proactive maintenance, reporting and infrastructure replacement program for the purpose of eliminating Sanitary Sewer Overflows (SSOs); and

WHEREAS, the State Regional Water Quality Control Board (SRWQCB) consistent with the intent of the WDRs has included in the City's National Pollution Discharge Elimination System (NPDES) Permit a requirement for the City to implement a Sewer System Management Plan (SSMP); and

WHEREAS, the City staff completed the development of the SSMP in August of 2008 and the City Council approved the SSMP following a public hearing in July of 2009 as required by the SWRCB and RWQCB; and

WHEREAS, the United States Environmental Protection Agency (USEPA), in May of 2009 issued an administrative order to the East Bay Municipal Utility District, and to satellite agencies including the City of Albany requiring further reduction of infiltration and inflow into the wastewater collection system; and

WHEREAS, on July 20, 2009, the City authorized the firm of Bartle Wells Associates, Independent Public Finance Advisors of Berkeley to prepare a Wastewater Financial Plan and Rate Review; and

1 **WHEREAS**, the report by Bartle Wells Associates recommends that the sewer service
2 charge rate be increased by up to \$3 per month for the next five years and thereafter by the
3 average annualized increase in the CPI , all urban for the San Francisco, Oakland, San Jose
4 region.

5 **WHEREAS**, it is necessary to increase sewer revenues in order to implement the
6 requirements mandated by the State and Regional Water Boards and by the USEPA, respectively;
7 and

8 **WHEREAS**, the required improvements are in addition to those currently be
9 implemented under the requirements of the City's Sewer Compliance Plan administered under
10 the Infiltration and Inflow Correction Program (I/ICP) administered under the NPDES Permit
11 issued by the SRWQCB and

12 **WHEREAS**, the City's sewer compliance and I/I correction permit plan being in
13 administered under the RWQCB extends through the year 2017; and

14 **WHEREAS**, the City staff report recommends that the sewer service charge for other
15 land use be increased proportionately; and

16 **WHEREAS**, in order to increase fees and charges, State law requires the City to
17 provide written notice by mail to the record owner of each affected parcel indicating amount,
18 basis, reason and time of a public hearing and procedures for filing written protests to the
19 proposed increase; and

20 **WHEREAS**, notice of the hearing must be mailed to each property owner no less than
21 45 days prior to the date of the hearing on the proposed increase.

22 **NOW, THEREFORE, THE ALBANY CITY COUNCIL DOES HEREBY**
23 **RESOLVE THAT:**

- 24 1. The Wastewater Financial Plan And Rate Review prepared by Bartle Wells
25 Associates is hereby accepted and preliminarily approved for the purpose of
26 establishing the basis for a proposed increase in the sewer service charge.
- 27 2. The City Council hereby declares its intention to increase the sewer service
28 charge annually by an amount up to \$2 per month plus the previously
29 charge annually by an amount up to \$2 per month plus the previously

1 authorized annual increase in the Consumer Price Index all urban, San
2 Francisco-Oakland-San Jose region, (CPI) for the next successive five
3 years and thereafter by the increase in the annual increase in the CPI,
4 until 2017 and to increase sewer service charge rates for other users
5 proportionately.
6

7 3. The Council will conduct a public hearing on the proposed increase in
8 the sewer service charge on July 19, 2010, beginning at 7:30 PM in the
9 City Council Chambers, 1000 San Pablo Avenue, Albany, CA
10 whereupon all interested persons will be afforded an opportunity to
11 speak on the matter of the proposed increase. Written protests to the
12 proposed increase will be received until the conclusion of the hearing.
13

14 4. The City Clerk is directed to provide written notice to the record owner
15 of each affected parcel, stating the intention of the City Council to
16 increase the sewer service charge, the date, time and place of the public
17 hearing to be held, information concerning the staff report that has been
18 filed in support of the proposed increase and procedures for filing
19 written protests. The notice shall be deposited in the United States mail
20 no less than 45 days prior to the hearing.
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27 _____
28 Mayor Joanne Wile
29



City of Albany

1000 San Pablo Ave, Albany, CA 94607

(510) 528-5710 • www.albanyca.org

NOTICE OF PROPOSED INCREASE IN ANNUAL SEWER SERVICE CHARGE

Dear Property Owner:

The City of Albany provides sanitary sewer service to the residents and businesses within the city. Sanitary sewer service includes building, operating and maintaining public main sewer pipelines as well as the lower portion of the lateral sewer that serves each property.

To pay for these services, the city collects an annual Sewer Service Charge from each property connected to the sewer system. The service charge rates are calculated for each customer group based on the cost to provide service, considering both the quantity of sewage discharged and other sewage characteristics affecting the cost for treatment. For most property owners, this charge is billed as a line item labeled "City Sewer Service" on the property tax bill they receive from Alameda County.

FOR RESIDENTIAL CUSTOMERS, each single-family home, mobile home, townhouse, condominium, apartment, and other multi-family home is charged a uniform rate for sewer service. The current residential rate is \$254 per year, and increases by the rate of the annual change in the SF-Oakland-San Jose Regional Consumer Price Index (hereafter "CPI"), unless otherwise determined by Council. The City Council will be considering an additional increase of up to \$2 per month plus the previously authorized adjustment for the increase in the CPI in each of the next five fiscal years, beginning in July of 2010, in each of the next successive 5 years, though June of 2015. Thereafter, from July 2015 through June 2017, rates will be increased by the annual change reported by CPI, unless otherwise determined by the Council.

This service charge increase is necessary to pay for increases in costs due to a new Administrative Order issued by the United States Environmental Protection Agency and intended to approach for reducing Sanitary Sewer Overflows (SSOs). The increase will pay for an acceleration in the rehabilitation and replacement of the aging sewer lines in the City in order to reduce the probability for SSOs in accordance with the findings for the City's Sewer System Management Plan.

RATES FOR NONRESIDENTIAL DISCHARGERS will be adjusted in proportion to the increase in residential rates.

RATE INCREASE NOTIFICATION: A recent decision by the California Supreme Court changes the way public agencies communicate rate increases to their customers. The decision creates new owner notification requirements that allow the opportunity for property owners to protest rate increases.

NOTICE IS HEREBY GIVEN that the City Council will hold a PUBLIC HEARING on this matter in the council chambers, 1000 San Pablo Avenue, Albany, on Monday, July 19, 2010 at 7:30 p.m., at which time and place interested persons may appear and be heard. Written comments or protests may be delivered to the City Clerk at 1000 San Pablo Ave., Albany, CA, 94706 and must be received by 5:00 p.m. on the day of the hearing to ensure a full review. At the public hearing, the Council will receive comments regarding the proposed fees. The Council may enact the new rates only if written protests of the proposed fees are not received from a majority of the affected property owners prior to the close of the public meeting.

If you have questions about the proposed Sewer Service Charges, please the Public Works Division at (510) 524-9543.

Notice mailed prior to May ____, 2010.

Jackie Bucholz

From: robert zweben [rjz7@aol.com]
Sent: Monday, May 10, 2010 7:04 PM
To: Jackie Bucholz
Subject: Re: Civil Service Board

Jackie,

Ultimately, it is up to the City Council to interpret the City's Charter. A literal reading of the Charter would result in a 'no' answer (the section does not prohibit a person from being on a committee and serving on the Civil Service Board). One could postulate that the spirit of the Charter Section does not provide for a member of the Civil Service Board to serve on other 'bodies' of the City, because the section seems to want a Civil Service Board member to not be a member of some other body.

Since we do not have a legislative history to look to in order to better understand the meaning of the Charter section, you or I can only guess. I looked up the word 'committee' in the Code. I did not find a definition of it. The word appears in various sections, including references to the Waterfront Committee and pesticide committees, etc. Committees could be long term just like Commissions. If you know of any City document that may define the difference between a commission and a committee, let me know.

So, I would suggest that this be brought to the Council's attention to address. The Council could go with a literal interpretation but adopt a policy that functionally equates a committee with a commission for the purposes of applying the restriction set forth in 8.01(d). In adopting a policy the Council would be determining that the spirit of the Charter provision is to have members of the Civil Service Board only serve as Civil Service members and not serve on any other body.

Robert

-----Original Message-----

From: Jackie Bucholz <JBucholz@albanyca.org>
To: Robert Zweben <rjzlaw@aol.com>; RJZ7@aol.com
Sent: Mon, May 10, 2010 2:53 pm
Subject: Civil Service Board

Robert:

A question has arisen about an appointee to the Civil Service Board. Judy Abel is currently serving on the Civil Service Board and the Arts Committee. I need your opinion as to whether the Charter applies here:

Charter Section 8.01(d) states: No officer, employee, or member of another Board, Commission or City Council shall be eligible for appointment to the Civil Service Board.

Would this Section apply to a City Committee? Does Board, Commission also mean Committee? Please let me know asap so I can send a letter if I need to.

j

Jacqueline L. Bucholz, CMC
City Clerk
1000 San Pablo Avenue
Albany, CA 94706

CITY OF ALBANY

**WASTEWATER FINANCIAL PLAN
AND RATE REVIEW**

May 2010

BARTLE WELLS ASSOCIATES

Independent Public Finance Advisors

1889 Alcatraz Avenue

Berkeley CA 94703

Tel. 510/653-3399

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CITY OF ALBANY

WASTEWATER FINANCIAL PLAN AND RATE REVIEW

EXECUTIVE SUMMARY

The City of Albany (City) was incorporated in 1908 as a charter city. The City is situated in northern Alameda County between the East Bay Hills and the San Francisco Bay along Interstate 80, and is the northern gateway to Alameda County. The City owns and maintains 35 miles of sewer pipelines. These pipelines discharge to a trunk sewer (the "North Interceptor") that runs along the east shore of the San Francisco Bay. The trunk sewer is owned, operated, and maintained by East Bay Municipal Utility District, Special District 1 (EBMUD).

The City's 35 mile collection system serves a population of approximately 17,000 residents and covers an area of approximately 1.5 square miles. The wastewater collected from the City's service area is treated by EBMUD's wastewater treatment facilities in the City of Oakland. The collection system was originally constructed in the early 20th century with cross connection structures; during storm events untreated sewer flowed from the sewer collection system and discharged to streams, creeks, and the Bay.

In 1987 the State Regional Water Quality Control Board (SRWQCB) issued a Cease and Desist Order (CDO) to the cities of Albany, Berkeley, Emeryville, Oakland, Piedmont, Alameda, EBMUD, and Stege Sanitary District.

Sewer System Management Plan (SSMP) Resolution #09-36 dated July 6, 2009 was adopted by the Albany City Council to approve the combined SSMP. SSMPs have been required for public sanitary sewer collection systems by the Regional Water Quality Control Board Resolution on July 7, 2005 and by the Statewide General Waste Discharge Requirements (WDR) for Sanitary Sewer Systems, Order No. 2006-003-DWQ, adopted by the State Water Quality Control Board.

The SSMP was developed and implemented to prevent or significantly reduce Sanitary Sewer Overflows (SSOs) from public sewer systems. The goals of the SSMP are: (1) to properly manage, operate and maintain all parts of the wastewater collection system, (2) to provide adequate capacity to convey peak flows, (3) to minimize the frequency of SSOs, and (4) to mitigate the impact of SSOs.

A major objective of the SSMP is to reduce the potential for SSOs by reducing the amount of infiltration and inflow (I&I) of groundwater/stormwater into the sewer system, which then reaches the EBMUD Trunk Sewers. The City of Albany has been a leader in the San Francisco Bay region, and the entire State of California by adopting an upper lateral compliance program. This program significantly reduces I&I by requiring that homeowners demonstrate that upper laterals are "tight" upon sale of their home or construction of major improvements (improvements in excess of 5 percent of the value of

the house). Reductions in I&I reduces the amount of pumping and energy required to process wastewater at EBMUD's pump station and treatment plant during significant rainfall events.

In May of 2009 the United States Environmental Protection Agency issued an Administrative Order (AO) to EBMUD, the City of Albany, and the other EBMUD satellite communities. Prior to the issuance of the AO, EBMUD and its satellites were permitted to discharge wastewater with less than secondary treatment at specified locations during rainfall events that exceeded a recurrence interval of 5 years. The AO prohibits this practice and requires EBMUD and its satellites to "tighten" up the collection system to reduce rainfall infiltration and inflow as necessary to eliminate the wetweather discharges to the bay.

In order to meet the requirements of the AO the City will need to increase the rate at which aging wastewater collection facilities are rehabilitated and/or replaced. This will require an increase in the Capital Improvement Program expenditures. This increase was not included in the previously authorized increase in rates approved by the Council in 2007.

Figure 1
Wastewater Financial Plan and Rate Review
City of Albany
Cease and Desist Order

Sanitary Sewer Overflows (SSOs) from sewer collection systems throughout California cities and communities have often caused beach closures, pollution of creeks and a threat to public health. A consensus has developed among the public, regulatory agencies and municipal sewer agencies that there is a need to develop and implement a comprehensive Sewer System Management Plan (SSMP) to prevent or significantly reduce SSOs from public sewer systems.

- 1987 State Regional Water Quality Control Board (SRWQCB) issued a Cease and Desist Order (CDO) to the Cities of Albany, Berkeley, Emeryville, Oakland, Piedmont, Alameda, EBMUD and Stege Sanitary District
- permission to continue to discharge treated wastewater to the SF Bay was conditioned upon each City adopting a Sewer Compliance Plan, administered under the National Pollution Elimination System (NPDES) Permit
 - the City's NPDES permit requires participation in regionally administered Infiltration and Inflow Correction Program (I/ICP)
 - since 1987 the City has replaced approximately 11 of the 35 miles of public sewer mains in the system
 - since 1993 the City has been proactively implementing and enforcing private sewer lateral rehabilitation program
- May 2006 State Water Board adopted Statewide General Waste Discharge Requirements (WDR) for Sanitary Sewer Systems, Order No. 2006-003-DWQ
- required development and implementation of Sewer System Management Plan (SSMP)
- August 2006 Phase 1 City's SSMP certified to State and local Water Boards
- August 2007 Phase 2 City's SSMP certified to State and local Water Boards
- August 2008 Phase 3 City's SSMP certified to State and local Water Boards
- May 2009 EPA issued Administrative Order (AO) for maintenance, operations, and data collection
- July 6, 2009 Council adopted Resolution No. 09-36 approving combined SSMP
- 2012 EPA Cease and Desist - gather data and set up flow allocation plan
- City CIP needs to match flow allocation

Source: City of Albany

The City is largely built-out. The City's collection system was generally designed with adequate capacity for existing and future development and does not have a history of capacity-based sewer system overflows (SSOs). The system has been designed to handle peak wet weather flows. The City has already established a process to assess current and future capacity requirements for its collection system facilities.

Capacity issues are increasingly caused by aging infrastructure rather than growth. Collection system rehabilitation projects are funded by a combination of connection fees and sewer service charges. These combined revenues are tracked in a 5-year rolling Capital Improvement Plan (CIP), which includes almost \$4.5 million in project expenditures.

The City selected Bartle Wells Associates, independent public finance advisors, to prepare a financing plan to help determine whether or not long-term financing will be required to fund the SSMP. Bartle Wells Associates reviewed the City's current sewer revenue and spending programs and recommend various funding schemes including long-term financing that may be necessary to implement the SSMP program.

Sewer Enterprise Finances

The City maintains a Sewer Enterprise Fund (Enterprise) for the purpose of managing the revenues and expenses associated with its wastewater system. The Enterprise's primary revenue sources are wastewater service charges, connection and inspection fees, and interest income. Anticipated revenues for fiscal year 2009/10 are shown below. The Enterprise's current annual charge for a single-family residence is \$303.48. The Enterprise also receives a fee from new connections and inspections. The current budget is based on minimal new development.

Revenue	2009/10
Service charges	\$2,172,000
Connection/Inspection Fees	30,000
Interest	100,000
Total	\$2,302,000

Wastewater Facilities

The City owns and maintains 35 miles of sewer mains and 10 miles of lower laterals. These pipelines discharge to a trunk sewer (the "North Interceptor") that runs along the east shore of the San Francisco Bay. The trunk sewer is owned, operated, and maintained by East Bay Municipal Utility District, Special District 1 (EBMUD).

The City's 35 mile collection system serves a population of approximately 17,000 residents and covers an area of approximately 1.5 square miles. The wastewater collected from the City's service area is treated by EBMUD's wastewater treatment facilities in the City of Oakland. The collection system was originally constructed in the early 20th century with cross connections to storm drain systems that provided for

overflows to storm drain systems through cross connection structures; untreated sewage also flowed from the sewer collection system and discharged to streams, creeks, and the Bay during storm events.

In recent years, concern about sanitary sewer overflows (SSOs) has become a critical water quality issue in the Bay Area. The San Francisco Bay Regional Water Quality Control Board (Regional Board) has initiated a regulatory program to reduce SSOs from sewers in the Bay Area. The program regulates a group of seven East Bay communities that flow to EBMUD's treatment plant. Besides Albany, these communities include Stege Sanitary District and the Cities of Alameda, Berkeley, Emeryville, Oakland, and Piedmont.

The City of Albany's collection system was generally designed with adequate capacity for existing and future development and does not have a history of capacity-based sewer system overflows (SSOs). Any capacity issues are increasingly caused by aging infrastructure rather than growth. The City has already established a process to assess current and future capacity requirements for its collection system facilities.

Spot Repair and Rehabilitation Program

The City is projecting to gradually increase the funding for spot repairs and pipeline rehabilitation. In fiscal year 2010/11 spending will be approximately \$470,000 and will continue to gradually increase each fiscal year. The Spot Repair and Rehabilitation Program will pay for ongoing general maintenance and repairs within the sewer system.

Capital Improvements

Over the next five years the City intends to fund almost \$6 million in capital expenditures through two programs/projects: the SSMP and the Collection System Project. The SSMP will include projects such as sewer cleaning and television inspection, GIS development, and Fats, Oils, and Grease (FOG) prevention. The focus of the Collection System Project is to rehabilitate wastewater collection mains throughout the City.

Financing Plan & Minimum Reserve Fund

A combination of reserves and "pay as you go" will be used to fund the compliance program and capital projects. This financing plan has developed a minimum reserve requirement for the City to maintain. The Enterprise requires reserves for operating working cash as well as a capital reserve and depreciation reserve. The recommended minimum Operating fund balance has been developed to encompass 60% of the annual operational, administrative, and repair costs. This target is intended to equal the O&M expenses incurred each year between May and December, the gap in time each year when the City has limited revenues before the sewer service charges are collected with the property taxes. A capital/emergency minimum reserve of \$1.5 million is recommended. This amount is minimal, but should be available for capital cost over-runs and

unanticipated repairs. The City can control the timing of spending on planned capital projects.

The total minimum balance would amount to almost \$2.8 million for 2010/11. The Operating fund reserve should be annually adjusted based on actual operating expenses. The capital/emergency reserve fund should be adjusted at least every five years.

In order to meet this obligation, a “pay as you go” program is recommended. Under such a program the annual sewer service charge will need to be increased. Sewer service charge revenues are the only funds under City control available for this purpose. The table below shows the recommended level of future monthly service charges over the next five years.

Equivalent Residential Unit (ERU)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	\$25.29	\$28.25	\$31.25	\$34.25	\$37.25	\$40.25

Impact on Customers

To implement a rate increase, the City needs to follow certain notification procedures established by Proposition 218 passed by the voters in 1996. These procedures include the requirement to establish a basis for the rate increase. Available engineering studies and this report will establish the necessary basis. Then the City Council must call for a public hearing to discuss rates and mail a notice to properties within the City. The public hearing may be held no earlier than 45 days after notices are mailed. If less than 50% of the ratepayers protest, then the Council may approve rates adjustments up to but not exceeding the level discussed in the mailed notification. Bartle Wells Associates recommends that the City adopt rates sufficient for at least four years and preferably five years.

INTRODUCTION

The City of Albany (City) provides wastewater collection to approximately 5,700 parcels within the City. The City is facing a number of challenges, including:

- **Capital needs:** The City must fund significant capital needs. Projects are required to replace aging collection mains and to reduce Inflow and Infiltration (I&I). The City has developed the cost and timing of its capital projects within its rolling 5-year Capital Improvement Plan (CIP).
- **Additional services:** The City must conform to the requirements in the 1987 Cease and Desist Order from the State Regional Water Quality Control Board and the 2009 EPA Administrative Order that specify major facilities replacements. In addition, state and federal requirements for sewer collection agencies are becoming more stringent.

The City selected Bartle Wells Associates, Independent Public Finance Advisors, to prepare a financing plan to help determine whether or not long-term financing will be required to fund the CIP. Bartle Wells Associates reviewed the City's current sewer revenue and spending programs and recommend various funding schemes including long-term financing that may be necessary to implement the CIP.

WASTEWATER FACILITIES

The City of Albany (City) was incorporated in 1908. The City is situated in northern Alameda County between the East Bay Hills and the San Francisco Bay along Interstate 80, and is the northern gateway to Alameda County. The City owns and maintains 35 miles of sewer pipelines. These pipelines discharge to a trunk sewer (the "North Interceptor") that runs along the east shore of the San Francisco Bay. The trunk sewer is owned, operated, and maintained by East Bay Municipal Utility District, Special District 1 (EBMUD).

The City's 35 mile collection system serves a population of approximately 17,000 residents and covers an area of approximately 1.5 square miles. The wastewater collected from the City's service area is treated by EBMUD's wastewater treatment facilities in the City of Oakland. The collection system was originally constructed in the early 20th century with cross connection structures; during storm events untreated sewer flowed from the sewer collection system and discharged to streams, creeks, and the Bay.

SEWER ENTERPRISE FINANCES

The City maintains a sewer enterprise fund to meet operational and capital spending targets and to provide a quality level of service for its customers.

Sewer Enterprise Fund

All of the sewer revenues are deposited in the Sewer Enterprise Fund, and then are transferred to the General Fund to pay operational expenses. Operational expenses such as costs incurred from employee salaries and benefits, repairs, maintenance and

engineering, and operational costs associated with compliance with the system's National Pollutant Discharge Elimination System (NPDES) permit.

Revenues of the Sewer Enterprise Fund include sewer service charges, interest earnings, and connection and inspection fees. It is assumed that interest earnings will be 1.1 percent on cash reserves. A target minimum fund balance has been developed based on 60% of non-capital expenses plus a \$1.5 million minimum capital reserve.

Fund Balances

For the FY 2009/10 budget, the Sewer Enterprise expects to have a total of approximately \$10 million available in cash from all its funds. The majority of the funds are held in the Capital Project Fund. Not all of these funds are available for operations and capital. Certain funds are already encumbered for accounts payable and capital projects. In addition, a debt service reserve of \$637,288 is restricted by revenue bond covenants. For purposes of this financial plan about \$4.5 million is available for wastewater operations as of June 30, 2009. The Enterprise fund balances are shown in Table 1 below.

Table 1
Wastewater Financial Plan and Rate Review
City of Albany
Fund Balances

	Projected Fund Balance*
Capital Project Sewer	\$10,071,000
Depreciation Reserve	\$63,000
Sewer Operations Reserve	\$89,000

*Projected as of June 30, 2009
Source: City of Albany
Budget for FY 2008/09 and 2009/10

Revenues

As discussed, the Sewer Enterprise's primary source of revenue is service charges. Interest earnings and connection and inspection fees provide nominal additional revenue. Approximately 99 percent of the Enterprise's revenues are collected from sewer service charges, which is the major source of revenue that the City can establish and control.

The City levies a sewer service charge to recover the costs of maintaining, repairing, and replacing its sewer collection lines. The City only direct bills a very small portion of its customers; the balance is collected by Alameda County on the property tax rolls.

Sewer Service Units

Determining sewer service units is essential to predicting the revenues from sewer service charges. The City currently provides sewer collection service to approximately 7,280 sewer service units or equivalent residential units (ERUs). A sewer service unit or ERU is a customer that discharges wastewater flow equivalent to a residential unit. Each residential unit is assigned 1.0 sewer service unit. A customer that discharges twice the flow of an average residential unit would be assigned two sewer service units. The City is a mix of residential, commercial, and institutional customers. About 87 percent of these sewer service units are single or multi-family residential and the remainder are commercial, industrial, or public customers.

Table 2 details the sewer service inventory for the City for fiscal year 2009/10.

Table 2
Wastewater Financial Plan and Rate Review
City of Albany
Summary of Sewer Service Units

User Type	# Parcels	# ERU*
Residential - single family	3,773	3,827
Residential - multi-family	1,410	2,523
Commercial	271	693
Industrial	12	46
School	3	7
Albany Unified School District	-	30
Orientation Center for the Blind	-	8
University Village (by agreement, 2008/09 = \$15,908)	-	52
USDA (based on water consumption, 2007/08 = \$22,282)	-	73
Church	5	5
Lodgehall & Clubhouse	2	2
Public Agency	163	0
Public Utility	17	0
Vacant Residential Tract Lot	1	0
Other	40	16
Total	5,697	7,282

* ERU = Equivalent Residential Unit
Source: LCC, Inc. and City of Albany

Sewer Service Charge Amount

The sewer service charge has increased annually since 2003/04. This increase has been on the order of 1 percent to 6 percent annually. The current monthly sewer service charge is \$25.29 per ERU. Sewer service charges are billed and collected by the County Auditor-Controller's Office on a semiannual basis. Payments are due November 1 and February 1 of the fiscal year in which the service is provided.

Resolution #07-37 approved by Albany City Council on July 2, 2007, increased the sewer service charge by \$8 for fiscal years 2007/08 through 2009/10, and continues the Consumer Price Index (CPI) increase until 2017.

Table 3 details the sewer service charge for a sewer service unit over the last eight years.

Table 3
Wastewater Financial Plan and Rate Review
City of Albany
Historical Sewer Service Charges

Fiscal Year	Monthly Rate per ERU	% Increase
2009/10	\$25.29	6%
2008/09	23.84	6%
2007/08	22.46	6%
2006/07	21.12	2%
2005/06	20.71	1%
2004/05	20.46	2%
2003/04	20.10	2%
2002/03	19.78	

Source: City of Albany
Sewer System Management Plan
August 2008

The sewer service charge revenue collected from each user type under the current charge is shown in Table 4. Approximately 87 percent of the service charge revenues are collected from residential customers.

Table 4
Wastewater Financial Plan and Rate Review
City of Albany
Summary of Current Surcharge FY 2009/10

User Type	# ERU	Rate/ERU	Annual Revenue
Residential - single family	3,827	\$25.29	\$1,161,417.96
Residential - multi-family	2,523	25.29	765,528.30
Commercial	693	25.29	210,196.32
Industrial	46	25.29	13,960.08
School	7	25.29	2,160.78
Albany Unified School District	30	25.29	9,004.25
Orientation Center for the Blind	8	25.29	2,418.74
University Village (1)	52	25.29	15,907.98
USDA (2)	73	25.29	22,282.24
Church	5	25.29	1,517.40
Lodgehall & Clubhouse	2	25.29	606.96
Other	16	25.29	4,886.03
Total	7,282		\$2,209,887.03

1 - By agreement, based on FY 2008/09 billing

2 - Based on water consumption, based on 2007/08 billing

Source: LCC, Inc. and City of Albany

Connection Fees

Connection or capacity fees are fees paid by new customers connecting to the sewer system. There is not much new development within the City's service area, so this is not a major revenue source. Under California law, new development cannot be charged more than the costs to provide capacity to serve that new development. There are specific provisions of law dealing with accounting for connection fees. They must be held in a separate fund and their use must be reported each year. The City's current connection fee is \$1,158 per ERU. This analysis assumes that two ERUs will come onto the system each year.

Expenses

Sewer Enterprise operating and maintenance expenses are budgeted at \$1,026,000. The Enterprise also incurs an annual expense for the funding of debt service. The Enterprise refinanced its debt in 2004 with the issuance of refunding revenue bonds. The revenue bonds will be paid off in FY 2023/2024 and the remaining debt service payments from now until then will average approximately \$635,000 per year. The debt service schedule is shown in Table 5.

The Sewer Fund transfers to money to the Debt Service Fund to provide payment for sewer bond interest and principal. A Reserve Fund is required and must maintain a balance of (1) maximum amount of principal of and interest on the Bonds coming due and payable in the current of any future Bond Year, (2) 10% of the principal amount of the Bonds, or (3) 125% of average annual debt service on the Bonds.

Table 5
Wastewater Financial Plan and Rate Review
City of Albany
2004 Sewer Revenue Bonds
Debt Service Schedule

Year Ending	Principal	Interest	Total
2005	\$320,000	\$286,382.31	\$606,382.31
2006	325,000	303,202.50	628,202.50
2007	330,000	296,702.50	626,702.50
2008	340,000	290,102.50	630,102.50
2009	350,000	282,622.50	632,622.50
2010	355,000	273,697.50	628,697.50
2011	370,000	263,402.50	633,402.50
2012	380,000	251,747.50	631,747.50
2013	395,000	239,017.50	634,017.50
2014	410,000	225,192.50	635,192.50
2015	425,000	210,432.50	635,432.50
2016	440,000	194,707.50	634,707.50
2017	455,000	177,987.50	632,987.50
2018	475,000	160,242.50	635,242.50
2019	495,000	141,242.50	636,242.50
2020	515,000	120,947.50	635,947.50
2021	540,000	99,317.50	639,317.50
2022	560,000	76,367.50	636,367.50
2023	585,000	52,287.50	637,287.50
2024	<u>610,000</u>	26,840.00	636,840.00
Total	\$8,675,000		

Source: City of Albany
2004 Sewer Revenue Bond Official Statement

Revenues and Expenses

The Sewer Enterprise's total budgeted operating revenue for FY 2010 is approximately \$2.2 million and the operating expense is \$1.0 million. This yields a net operating revenue of \$1.2 million. Capital revenues include \$30,000 from connection fees, and capital expenses consisting of CIP projects and debt service in the amount of \$1.6 million.

Table 6 details actual and budgeted revenues and expenses for 2008/09 and 2009/10.

Table 6 Wastewater Financial Plan and Rate Review City of Albany Projection of Operating Revenue and Expenses		
	Audit 2008/09	Adopted Budget 2009/10
Revenue		
Sewer service charges	2,036,803	2,040,889
Connection/inspection fees	23,243	30,000
Interest (estimated 2009/10)	<u>107,285</u>	<u>100,000</u>
Total revenue	2,167,331	2,170,889
Expense		
General Fund Expenditures		
Salaries and benefits	499,953	529,785
Services and supplies	242,957	244,730
Other expenditures	<u>251,449</u>	<u>251,449</u>
Subtotal operations expense	994,359	1,025,964
Capital Projects & Debt Service		
CIP Expenditures	2,584,633	945,868
2004 Sewer revenue bond payments	<u>632,623</u>	<u>628,698</u>
Subtotal capital & debt	3,217,256	1,574,566
Total expense	4,211,615	2,600,530
Net annual revenue	(\$2,044,284)	(\$429,641)

Source: City of Albany
CAFR Year Ended June 30, 2009
Budget for FY 2008-29 and 2009-10

CAPITAL IMPROVEMENT PROGRAM

The City has developed a rolling five-year capital improvement program (CIP) to comply with requirements from the Regional Board and maintain its collection system. Sewer System Management Plan (SSMP) Resolution #09-36 dated July 6, 2009 was adopted by the Albany City Council to approve the combined SSMP. SSMPs have been required for public sanitary sewer collection systems by the Regional Water Quality Control Board Resolution on July 7, 2005 and by the Statewide General Waste Discharge Requirement

(WDR) for Sanitary Sewer Systems, Order No. 2006-003-DWQ, adopted by the State Water Quality Control Board.

The SSMP was developed and implemented to prevent or significantly reduce Sanitary Sewer Overflows (SSOs) from public sewer systems. The goals of the SSMP are: (1) to properly manage, operate and maintain all parts of the wastewater collection system, (2) to provide adequate capacity to convey peak flows, (3) to minimize the frequency of SSOs, and (4) to mitigate the impact of SSOs.

A major objective of the SSMP is to reduce the potential for SSOs by reducing the amount of infiltration and inflow (I&I) of groundwater/stormwater into the sewer system, which then reaches the EBMUD Trunk Sewers. The City of Albany has been a leader in the San Francisco Bay region, and the entire State of California by adopting an upper lateral compliance program. This program significantly reduces I&I by requiring that homeowners demonstrate that upper laterals are "tight" upon sale of their home or construction of major improvements (improvements in excess of 5 percent of the value of the house). Reduction in I&I reduces the amount of pumping and energy required to process wastewater at EBMUD's pump station and treatment plant during significant rainfall events.

Specific projects within the SSMP include sewer cleaning and television inspection, GIS development, and Fats, Oils, and Grease (FOG) prevention.

In addition to the SSMP, the five-year CIP includes capital expenditures for the Spot Repair and Rehabilitation Program and the Collection System Project. The City's collection system was generally designed with adequate capacity for existing and future developments and does not have a history of capacity-based sewer system overflows (SSOs). The system has been designed to handle peak wet weather flows. The City has already established a process to assess current and future capacity requirements for its collection system facilities. Expenditures for the Spot Repair and Rehabilitation Program and Collection System Project will be used to replace segments of collection mains throughout the system.

An additional commitment to the rehabilitation and replacement of the City's wastewater collection facilities is now being required. This commitment to reducing and eliminating Sanitary Sewer Overflows to the San Francisco Bay has been mandated by the May 2006 Administrative Order (AO) issued to EBMUD, to the City and to the other EBMUD satellites by the Environmental Protection Agency (EPA). The funding that will be required for the accelerated program required under the AO will exceed that which is currently budgeted for in the existing rate structure.

The staff report prepared by Staff in June of 2007 in support of Resolution #07-37 indicated that the purpose of the increase authorized by that Resolution and subsequent Proposition 218 proceeding was intended to fund the proposed pre-emptive and proactive maintenance of the City's sanitary sewer system that had been mandated by the WDR

and the SSMP. The report by the City staff indicated that the increase would not be adequate to cover increased capital improvement program expenditures, should unforeseen deficiencies in the system be discovered or should the regulatory authorities determine that an increased rate of replacement of the City's aging wastewater collection facilities be required.

Table 7 shows the planned expenditures for the CIP over the next ten years, which total over \$17.5 million. Given that only \$4.5 million is currently available in the reserves, the Sewer Enterprise must develop other revenue sources to fully fund the CIP.

Table 7
Wastewater Financial Plan and Rate Review
City of Albany
Sewer Program Expenses

	Budgeted 2009/10	Planned 2010/11	Planned 2011/12	Planned 2012/13	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20
Operations and Maintenance	1,026,000	1,057,000	1,089,000	1,122,000	1,155,000	1,189,000	1,225,000	1,262,000	1,300,000	1,339,000	1,380,000
2004 Sewer Revenue Bonds Payments	629,000	633,000	632,000	634,000	635,000	635,000	635,000	633,000	635,000	636,000	636,000
Spot Repairs and Rehabilitation (1)	250,000	330,000	375,000	425,000	475,000	500,000	547,000	563,000	580,000	580,000	580,000
SSMP (2)											
Cleaning and television inspection	153,000	158,000	163,000	168,000	173,000	178,000	183,000	188,000	194,000	200,000	206,000
Condition assessment	11,000	11,000	12,000	12,000	12,000	13,000	13,000	14,000	14,000	14,000	15,000
GIS development	11,000	11,000	12,000	12,000	12,000	13,000	13,000	14,000	14,000	14,000	15,000
Capacity assessment	11,000	11,000	12,000	12,000	12,000	13,000	13,000	14,000	14,000	14,000	15,000
FOG prevention	5,000	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000
Online reporting and misc program costs	5,000	6,000	6,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000
Total SSMP	196,000	203,000	211,000	216,000	221,000	229,000	236,000	244,000	250,000	256,000	265,000
Collection System Projects											
North of Brighton Easement	500,000										
Masonic Marin to Washington		670,000									
West Side of Albany Hill											
Solano Ave. Masonic to Ventura			840,000								
Future Projects (1)				1,000,000							
Total Collection System Projects	500,000	670,000	840,000	1,000,000	1,030,000	1,061,000	1,093,000	1,126,000	1,159,000	1,194,000	1,230,000
Grand Total	\$2,601,000	\$2,893,000	\$3,147,000	\$3,397,000	\$3,516,000	\$3,614,000	\$3,736,000	\$3,828,000	\$3,924,000	\$4,005,000	\$4,091,000

1 - Allowance after other operating and capital expenses
2 - Escalated at 3% per year from 2007, projected by BWA
Source: City of Albany

Summary of Capital Project Expenditures Fiscal Year 1500000

FINANCING CAPITAL PROJECTS

In addition to funding from reserves, the City has several options for financing its CIP including “pay as you go” funding, issuing debt, or a combination of these options and funding from reserves. Although the City has historically minimized its debt to save on interest costs, borrowing is an appropriate course of action when capital projects have long useful lives. They will benefit customers over many years, and it is equitable for those future customers to help pay for the projects.

The most appropriate debt financing methods for the City’s projects are revenue bonds and state revolving fund loans, if available. Initially, the City could use its reserves to plan and design the projects and then finance them at the time of construction. Various options for issuing debt are described in detail in the following sections.

Revenue Bonds and Certificates of Participation (COPs)

The City of Albany is a charter city with the authority to issue revenue bonds according to Chapter 4-6 of the City’s Municipal Code. COPs are a form of long-term financing contracts, secured by the City’s revenues. A COP for practical purposes is a revenue bond. The City enters into an agreement with a trustee bank under which it purchases a project and agrees to make a stream of payments. The bank then sells shares, or participations, in the City’s payments, in increments of \$5,000 each. The COPs are underwritten, traded, and sold like any municipal bond issue. The terms are established when the COPs are issued and remain in force while they are outstanding. The City can issue COPs very easily. The process takes three to four months.

Bank Loans

Bank loans, private placements, and leases typically offer slightly higher interest rates than bonds, but also have lower costs of issuance. This generally makes bank loans a cost-effective option for smaller borrowings, historically under \$5 million. However, depending on current interest rates, bank loans may be cost-effective for financings upwards of \$10 million depending on the underlying credit of the City. Short-term bank loans and lines of credit are sometimes used to provide interim financing that will eventually be taken out with long-term debt. For example, agencies with limited fund reserves may use a line of credit to fund planning and design costs prior to issuing long-term bonds when construction begins. The legal covenants securing loans and lines of credit are generally similar to those of revenue bonds or COPs.

Clean Water State Revolving Fund Loans

The State Water Resources Control Board (SWRCB) administers the Clean Water SRF loan program. This program provides below-market rate loans to finance wastewater treatment plant improvements. Priority is given to those projects that address human health hazards and treatment systems that are not meeting their waste discharge requirements.

This program offers a number of advantages over other lending options. Primary among them is the very low interest rate, historically averaging 2.5%, and the maximum issuance amount of \$50

million per year. Another advantage is that no payments on the loan are due until 12 months after the project has been in service. This allows the City as many as four years (from the start of design and construction) to slowly build sewer service charges to the appropriate levels to meet future repayment of the loan. During that time, connection fees can be saved expressly for the purposes of meeting debt service in the future. Additionally, the SWRCB does not require the same level of security for repayment of the loan as a market rate security would. There is no reserve fund requirement, and although the City must pledge to repay the loan on time, and to maintain revenues sufficient to do so, there is some level of flexibility in using impact fees to repay a portion of the debt. The process to secure an SRF loan often requires a year or more.

CASH FLOW PROJECTION

Using the assumptions detailed in the previous sections a cash flow has been developed. Increased sewer service charges are needed to meet operating costs and increased capital costs associated with the SSMP. These increases will also maintain the target reserve levels mentioned in the previous sections.

Connection fee revenues and interest earnings have been included in the cash flow. Table 8 shows the cash flow projection over the next ten years.

Table 8
Wastewater Financial Plan and Rate Review
City of Albany
Projection of Revenue and Expenses

	Adopted Budget 2009/10	Projected 2010/11	Projected 2011/12	Projected 2012/13	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20
Number of ERUs	7,280	7,284	7,288	7,292	7,296	7,300	7,304	7,308	7,312	7,316	7,320
Increase - amount (\$/mo)		2.96	3.00	3.00	3.00	3.00	1.75	1.00	1.00	1.00	1.00
Sewer Service Charge (monthly/ERU)	\$25.29	28.25	31.25	34.25	37.25	40.25	42.00	43.00	44.00	45.00	46.00
Increase - %		11.7%	10.6%	9.6%	8.8%	8.1%	4.3%	2.4%	2.3%	2.3%	2.2%
Available Beginning Fund Balance (1)	4,518,000	4,256,000	3,909,000	3,568,000	3,237,000	3,048,000	3,024,000	3,032,000	3,038,000	3,038,000	3,047,000
Revenue											
Sewer service charges	2,209,000	2,469,000	2,733,000	2,997,000	3,261,000	3,526,000	3,681,000	3,771,000	3,861,000	3,951,000	4,041,000
Interest @1.1%	100,000	47,000	43,000	39,000	36,000	34,000	33,000	33,000	33,000	33,000	34,000
Connection/inspection fees	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total revenue	2,339,000	2,546,000	2,806,000	3,066,000	3,327,000	3,590,000	3,744,000	3,834,000	3,924,000	4,014,000	4,105,000
Expenses (2)											
General Fund Expenditures											
Salaries and benefits	530,000	546,000	562,000	579,000	596,000	614,000	632,000	651,000	671,000	691,000	712,000
Services and supplies	245,000	252,000	260,000	268,000	276,000	284,000	293,000	302,000	311,000	320,000	330,000
Other expenditures	251,000	259,000	267,000	275,000	283,000	291,000	300,000	309,000	318,000	328,000	338,000
Spot repairs and rehabilitation	250,000	330,000	375,000	425,000	475,000	500,000	547,000	563,000	580,000	580,000	580,000
2004 Sewer revenue bonds payments	629,000	933,000	932,000	634,000	635,000	635,000	635,000	633,000	635,000	636,000	636,000
Subtotal expenses	1,905,000	2,020,000	2,096,000	2,181,000	2,265,000	2,324,000	2,407,000	2,458,000	2,515,000	2,555,000	2,596,000
Capital Projects											
SSMP	196,000	203,000	211,000	216,000	221,000	229,000	236,000	244,000	250,000	256,000	265,000
Collection system projects	500,000	670,000	840,000	1,000,000	1,030,000	1,061,000	1,093,000	1,126,000	1,159,000	1,194,000	1,230,000
Total capital and debt	696,000	873,000	1,051,000	1,216,000	1,251,000	1,290,000	1,329,000	1,370,000	1,409,000	1,450,000	1,495,000
Total Annual Expenditures	2,601,000	2,893,000	3,147,000	3,397,000	3,516,000	3,614,000	3,736,000	3,828,000	3,924,000	4,005,000	4,091,000
Net Annual Revenue	(262,000)	(347,000)	(341,000)	(331,000)	(189,000)	(24,000)	8,000	6,000	0	9,000	14,000
Ending Fund Balance	4,256,000	3,909,000	3,568,000	3,237,000	3,048,000	3,024,000	3,032,000	3,038,000	3,038,000	3,047,000	3,061,000
Fund Target Minimum Balance (3)		2,712,000	2,758,000	2,809,000	2,859,000	2,894,000	2,944,000	2,975,000	3,009,000	3,033,000	3,058,000

1 - Operating cash and investments less current liabilities and revenue bond reserve. From CAFR June 30, 2009
2 - Most expenses escalated 3% annually
3 - Based on 60% of non-capital expenses plus \$1.5 million minimum capital reserve
Source: Prepared by Bartle Wells Associates from information provided by the City

SERVICE CHARGE AND CONNECTION CHARGE RECOMMENDATIONS

Given the Enterprise's operational and capital funding needs, Bartle Wells Associates has made recommendations for sewer service charge and connection fee adjustments and long-term financing of the CIP.

Sewer Service Charges

As shown in Table 8, the sewer service charges must increase to fund ongoing annual costs as well as the CIP. A summary of the recommended rate increases over the next five years is shown in Table 9.

Table 9
Wastewater Financial Plan and Rate Review
City of Albany
Projected Monthly Sewer Service Charge

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Sewer Service Charge (monthly/ERU)	25.29	28.25	31.25	34.25	37.25	40.25
Increase - %		11.7%	10.6%	9.6%	8.8%	8.1%

Source: Prepared by Bartle Wells Associates

Table 10 and Figure 2 show the rate comparison of the City of Albany's current rates with the other EBMUD satellite sanitation agencies. Although the City's rates appear to be on the high end compared to the other agencies, it should be noted that some of these agencies have not raised their rates in several years or are currently undergoing rate studies.

Table 10
Rate Comparison to Other EBMUD Satellite Sanitation Agencies

Agency	Monthly Service Charge (Single-Family Residential)*
City of Emeryville (1)	\$8.00
Stege Sanitary District (2)	10.25
City of Alameda	14.91
City of Berkeley (3)	18.66
City of Oakland (3)	22.24
City of Albany	25.29
City of Piedmont (4)	37.50

* Current monthly service charge for FY2009/10 unless otherwise noted

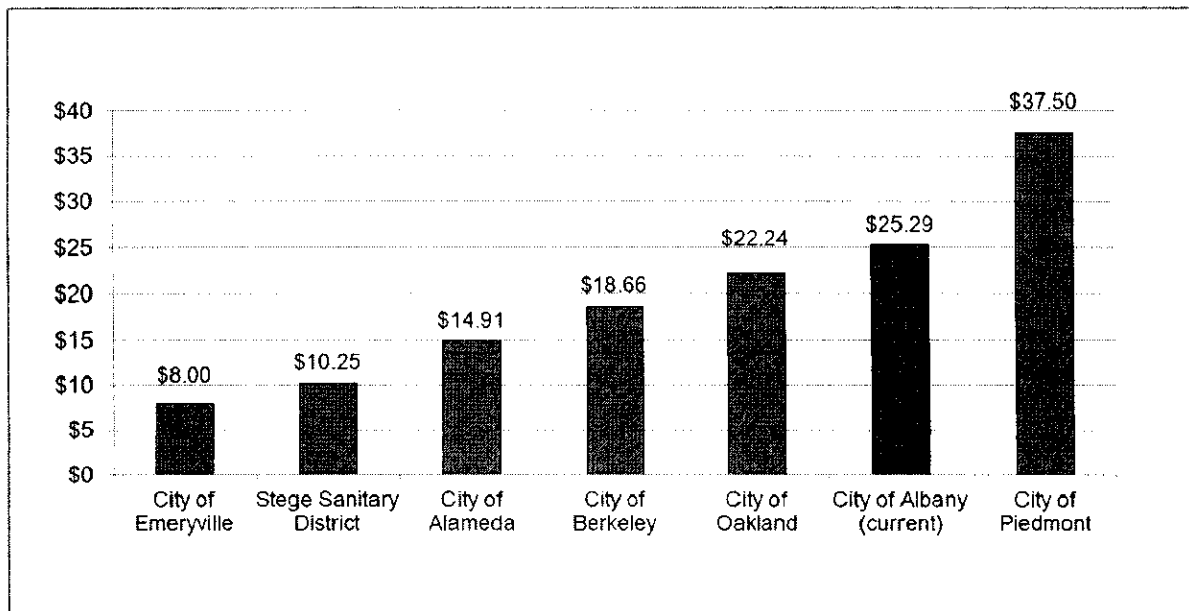
1 - The City of Emeryville has not raised its sewer service charges since 1997

2 - Stege Sanitary District is currently performing a rate study and anticipates raising its rates for FY 2011 and beyond

3 - The service charge is based upon an estimated residential wastewater flow of 4,350 gallons per month

4 - The service charge is a flat rate for lots sized 5,000 sq ft to 10,000 sq ft

Figure 2 – Monthly Service Charges of EBMUD Satellite Sanitation Agencies



Connection Charge

The City's current connection charge is a \$1,158 per residence. New commercial and industrial connections pay a charge of \$180.95 per plumbing fixture plus a fee of \$6.95 per gallon of grease trap capacity (for restaurants). The minimum connection charge for commercial or industrial customers is \$1,200.

Revenues from connection charges must be placed in the capital expansion fund. Revenues from the inspection charge may be placed in either the general fund or the capital fund. No change is recommended for the inspection charge.

Adjusting Connection Charges

Connection charges should be adjusted regularly to prevent them from falling behind the costs of constructing new facilities. Several methods can be used to adjust the capacity charges, including:

- ENR Construction Cost Index: ENR (Engineering News-Record) magazine publishes construction cost indices monthly for 20 major U.S. cities and an average of 20 cities around the U.S. These indices can be used to estimate the change in the construction cost of facilities.
- U.S., California, or regional consumer price index.
- Interest rate and borrowing costs: The interest and borrowing costs for debt issued to finance water capital projects can be added to the connection fee annually.

Bartle Wells Associates recommend that City adjust its capacity charges annually by the change in the ENR Construction Cost Index for San Francisco. This is the most appropriate index because it directly reflects construction costs. Suggested language for implementing this policy is:

Each year, commencing on (m/d/y) and continuing thereafter on each (m/d) , the connection fee shall be adjusted by an increment based on the change in the Engineering News-Record Construction Cost Index for San Francisco from the base index.

However, the City Council may at its option determine, by resolution adopted prior thereto, that such adjustment shall not be effective for the next succeeding year, or may determine other amounts as appropriate.