

April 16, 2013, 6:00 p.m.

City Council Chambers, 333 Civic Center Plaza

Web Site: www.ci.tracy.ca.us

1. Call to Order - Mayor Ives called the meeting to order at 6:02 p.m.
2. Roll Call - Roll call found Council Members Manne, Rickman, Young, Mayor Pro Tem Maciel and Mayor Ives present.
3. Items from the Audience – None.
4. WORKSHOP FOR THE WASTEWATER REVENUE AND RATE PROGRAM – Steve Bayley, Deputy Director, Public Works, provided the staff report. Mr. Bayley stated expenses had been carefully managed and wastewater rates have been unchanged since 2006. The revenue generated from rates has been adequate to fund the ongoing maintenance and operations for the wastewater treatment plant and collection system. Two significant projects are scheduled for the upcoming years which will require a rate increase in order to provide project funding.

The first project is the installation of a second wastewater outfall pipeline. The existing outfall pipeline was installed in the late 1970s and therefore nearly 40 years old. The existing outfall pipeline is made of asbestos cement pipe, a very brittle material which can be easily damaged. There is only one outfall pipeline which makes it a single point of failure, meaning if the pipeline broke; the City would have no other way to dispose of 9 million gallons per day of treated wastewater. If a release of untreated wastewater to the environment occurred, there would likely be significant regulatory fines and the potential for third party lawsuits. The existing outfall pipeline is currently at capacity. The new pipeline will have capacity for 16 million gallons per day (mgd). The new second outfall pipeline would parallel the existing outfall pipeline and would be approximately 3.5 miles long. Final design and permitting are nearly complete and the project will be ready for bidding this year. A redundant pipeline is needed in order to ensure continued long-term reliable disposal of the treated wastewater effluent.

The second project is the proposed desalination project. The City discharges treated wastewater that contains salinity levels that exceed Delta water quality standards. A desalination facility, in conjunction with an ethanol production facility, will provide a sustainable method to reduce salinity. Capital costs will be funded by the project proponent, CST. It is anticipated that the City will contract with CST for salinity removal. This project is still in beginning design stage and funding will likely be needed in two years.

These changes in future expenditures have been analyzed and determined to result in the need for rate increases of 9.68% and 9.85%. The existing rate for single family homes is \$31.00 per month and is proposed to increase to \$34.00 per month, and in approximately July 2015, increase to \$37.35. Rates for commercial and industrial users increase a similar percentage.

It is anticipated that any rate adjustment would become effective in approximately three months. CH2M Hill developed the wastewater rate model and this update utilizes the same structure with current and projected revenues and expenses.

The outfall pipeline project is included in the Capital Improvement Program as CIP 74083. The estimated cost for construction is between \$20 and \$25 million. The existing ratepayers have a proportionate share of the project cost and a portion will be funded by future development. The desalination project, if constructed, will require increased operational expenditures of approximately \$1.5 million per year. There is no fiscal impact to the General Fund as all expenses are related to the Wastewater Enterprise Fund.

Mr. Bayley introduced Allen Highstreet, CH2M Hill, who provided a recap of the wastewater rate study.

Staff recommended that Council direct staff to distribute a notice of the proposed rate increase as required by Proposition 218 in preparation of adopting revised wastewater rates. The proposed rate is \$34.00 per month for Single-Family Residential.

Council Member Young asked how the City's wastewater rates for commercial compared to other cities. Mr. Highstreet indicated the study did not focus on commercial rates.

Mayor Pro Tem Maciel asked if the rate increases were based on the cost of providing service. Mr. Highstreet stated yes. Mayor Pro Tem Maciel also asked if the rates went down would the cost to the ratepayers also go down. Mr. Highstreet indicated that could be done, but that historically the City has instead kept the rates steady, stretching the time between rate increases.

Mayor Pro Tem Maciel asked if the rate increase only applied to residential users. Mr. Highstreet stated the increase included residential, commercial and industrial users.

Mayor Ives asked for clarification regarding the largest part of the increase related to the collection system. Mr. Bayley explained that the State Board began regulating collection systems and created Waste Discharge Requirements (WDR), which required the City to purchase a Computerized Maintenance and Management System. The system requires monthly reports, maps, weekly checking of hot spots, addition of another vacuum and additional staff.

Mayor Ives invited members of the public to address Council on the item.

Steve Nicolau, 1068 Atherton Drive, asked how long the study and rate increase had been in the works. Mr. Bayley indicated it was a Capital Improvement Project that was identified approximately ten years ago, and outlined various steps in the process.

Mr. Nicolau referred to recent discussions concerning a Development Agreement which allocated approximately \$5.4 million from the wastewater fund to help finance a pool for the Ellis project. Mr. Nicolau asked why the money would have been taken out of the fund if the City knew this increase was going to be necessary. Mr. Nicolau indicated the actions seemed disingenuous.

Dave Helm voiced concerns regarding the wastewater system being at capacity while the City was looking at adding 2,200 homes at Ellis. Mr. Helm encouraged Council to be good stewards and explain why this increase was necessary.

Robert Tanner, 1371 Rusher Street, asked why waste from septic tanks had not been charged previously, but will be charged in the future rates. Mr. Bayley indicated the vast majority of this revenue comes from San Joaquin County and has always been collected. Mr. Bayley added that the rate was based on the flow and strength of the flow.

Mayor Ives asked for clarification regarding the outfall capacity. Mr. Bayley stated the system was built in the late 1970's when the plant was at six million gallons per day. Mr. Bayley added the system broke once in 1997 when the levees failed. Mr. Bayley stated that since that time the City has been able to handle the volume even in wet winter conditions. However, Mr. Bayley added that when the engineering calculations are performed on a 33 inch pipe, it shows that the system is very close to capacity. Mr. Bayley further stated staff was concerned about the pipe's age, its integrity, susceptibility to farm equipment and the lack of a redundant facility.

Council Member Rickman asked if the reason for the increase in operating costs was due to State mandates. Mr. Bayley stated yes. Council Member Rickman asked if there were savings from the purchase of equipment, could the rates be reduced. Mr. Bayley stated if a true decrease in costs was realized, the rates could be reassessed, and rate reductions passed on. Mr. Bayley added that a reduction was improbable due to the continued increase in PG&E rates.

Council Member Young stated the outfall pipeline needed to be done and asked if it had been budgeted in the City's CIP budget. Mr. Bayley stated the project has been budgeted, but the project could not be complete without funding from the rate increase, and explained further funding efforts.

Council Member Young reiterated that the City has not raised rates since 2006, and that it was prudent for the City to act now versus waiting until an incident occurred.

Council Member Manne asked staff to address the concern raised regarding the Ellis project and concessions made for wastewater and how, if it would, affect this rate increase. Mr. Bayley indicated the \$5 million alluded to would decrease the funding amount from \$14 million to \$9 million, resulting in a one-third decrease.

Mayor Ives asked staff to explain the Proposition 218 process. Mr. Bayley indicated staff was requesting permission to send out notification that the City plans to raise rates. Mr. Bayley indicated, if approved by Council, a mailer would go out in the May utility billing and a hearing to adjust rates could be held 45 days after the last notice is mailed.

It was moved by Mayor Pro Tem Maciel and seconded by Council Member Rickman to direct staff to distribute a notice of the proposed rate increase as required by Proposition 218 in preparation of adopting revised wastewater rates. The proposed rate is \$34.00 per month for Single-Family Residential. Voice vote found all in favor; passed and so ordered.

5. Adjournment – It was moved by Council Member Rickman and seconded by Council Member Manne to adjourn. Voice vote found all in favor; passed and so ordered.
Time: 6: 54 p.m.

The above agenda was posted at the Tracy City Hall on April 11, 2013. The above are summary minutes. A recording is available at the office of the City Clerk.

Mayor

ATTEST:

City Clerk