



## MEMO

**Date:** April 27, 2023

**To:** Roberto Yano, Public Works Director, City of National City

**From:** Carmen Kasner, Ardurra Group, Inc.

**Subject:** Wastewater Rate Analysis

The City of National City (City) adopted via the Proposition 218 process, a wastewater rate study in Fiscal Year (FY) 2017 (2016-2017) that set rates for FY2017-2018 through FY2022-2023. This included increases for 5 years ending in FY2023. These rates included increases for each of those years of 9.8% with the anticipation that the financial picture of the wastewater system for the City should stabilize during that time. The actual revenues received from the projected rates matched the model well and costs experienced during this time was also similar. When those rates were established, there was significant uncertainty with the actual costs that would be carried by the City for the cost of the treatment and transportation of wastewater to the City of San Diego. This is due to the Pure Water Program that was being implemented to provide the double benefit of “secondary equivalency” to San Diego’s wastewater customers including National City as well as a significant new potable water supply for the City of San Diego.

The City hired Ardurra Group, Inc. as a subconsultant to Anser Advisors to review expected revenue and expenditures for the next few fiscal years to assess whether a rate increase was needed. We have completed that assessment and note the following key elements of the system needs:

1. The City’s Reserves are much higher than the previous model predicted due to lower costs from Metro during the rate model. Additionally, the amount of money needed for the Metro Cash Flow reserve has significantly dropped since the City of San Diego decided to take out loans for the construction of the Pure Water Program.
2. Inflation will affect the City’s CIP costs and City of San Diego Metropolitan Treatment System (Metro) system costs. Construction costs are currently vastly outpacing inflation, which has increased significantly.
3. Metro costs during the past 5 years have generally been lower than the previous rate model. Their costs over the next 5 years will be significantly more than the previous rate model.
4. No significant changes have occurred in the flow characteristics and distribution of flows or billing classifications in the past 5 years and therefore the current billing structure is appropriate.
5. The City’s CIP budget needs to be increased to address system improvements needed. \$4,000,000 can be budgeted and fit within the current rates.



Based upon our review of these key elements and the current reserves, no increase in rates is needed for the City of National City for FY23-24 or FY24-25 at this time. We will continue to monitor it annually and make recommendations based upon actual expenditures and construction costs.

The below table details the recommended monthly and unit charges.

**TABLE A**  
**Annual Sewer Service Charges for FY 2023-2024 & FY 2024-2025\***

User Class	Current	2024	2025
<b>Residential: \$ Per Month</b>			
Single Family	\$ 51.18	\$ 51.18	\$ 51.18
Multi-family/Condo	\$ 39.92	\$ 39.92	\$ 39.92
Mobile Homes	\$ 31.22	\$ 31.22	\$ 31.22
<b>Non-Residential: \$ Per HCF</b>			
Commercial - Low	\$ 5.25	\$ 5.25	\$ 5.25
Commercial - Medium Low	\$ 5.66	\$ 5.66	\$ 5.66
Commercial - Medium	\$ 6.80	\$ 6.80	\$ 6.80
Commercial - Medium High	\$ 7.95	\$ 7.95	\$ 7.95
Commercial - High	\$ 9.88	\$ 9.88	\$ 9.88

\*Commercial properties have an annual minimum charge of \$374.61 which is equivalent to a mobile home annual charge. Duplexes on a property are charged one single family rate and one multi-family rate.

For the purposes of this memo, references to a specific fiscal year are for the City's fiscal year ending June 30. To avoid confusion between calendar and fiscal years, the term FY refers to the year beginning July 1 and ending June 30. The current rates were set through FY 2023 and therefore 2023 is considered current.



The below table details the current beginning balance based on the draft ACFR, budgets and projected expenses for the next two years and resulting Fund balance over the recommended target reserves:

<b>TABLE B</b>			
<b>City of National City</b>			
<b>Sewer Utility Long Range Financial Plan</b>			
	<b>Current</b>	<b>Fiscal Year 2023-2024</b>	<b>Fiscal Year 2024-2025</b>
<b>Beginning Balance</b>	\$ 19,357,821	\$ 16,154,651	\$ 15,331,767
<b>Revenue:</b>			
Non-Operating Revenue		\$ -	\$ -
User Fees	\$ 10,847,898	\$ 11,910,000	\$ 11,910,000
<b>Total Revenue</b>	\$ 10,847,898	\$ 11,910,000	\$ 11,910,000
<b>Operations Expenses:</b>			
Collection System Maintenance	\$ 2,185,086	\$ 2,294,340	\$ 2,409,057
Metro and JPA costs -Blended	\$ 6,285,436	\$ 7,438,544	\$ 7,661,700
<b>Total Operations Expenses</b>	\$ 8,470,522	\$ 9,732,884	\$ 10,070,758
<b>Capital Improvement Program:</b>			
Collection System CIP	\$ 5,580,546	\$ 3,000,000	\$ 4,000,000
<b>Total Expenses</b>	\$ 14,051,068	\$ 12,732,884	\$ 14,070,758
<b>Fund Balance Prior to Reserves</b>	<b>\$ 16,154,651</b>	<b>\$ 15,331,767</b>	<b>\$ 13,171,009</b>
<b>Reserve Targets:</b>			
Operations/Cash Flow	\$ 4,235,261	\$ 4,866,442	\$ 5,035,379
Metro Cash Flow	\$ 825,000	\$ 825,000	\$ 825,000
Emergency/Nat. Disaster	\$ 2,107,660	\$ 1,909,933	\$ 2,110,614
Capital Expansion Reserve	\$ 1,270,578	\$ 1,459,933	\$ 1,510,614
Capital Replacement Reserve	\$ 1,270,578	\$ 1,459,933	\$ 1,510,614
<b>Total Recommended Reserves</b>	<b>\$ 9,709,078</b>	<b>\$ 10,521,240</b>	<b>\$ 10,992,220</b>
<b>Fund Balance Over/(Under) Reserve Target</b>	<b>\$ 6,445,573</b>	<b>\$ 4,810,527</b>	<b>\$ 2,178,789</b>



This analysis maintains the City's current reserve policy #201, Amended May 4, 2021, that applies to the sewer fund of which there are five elements:

**Sewer Service Fund Operations/Cash Flow Reserve:** Between 25& 50% of a single year's budgeted Sewer Service Fund Operating Expenditures.

**Sewer Service Fund Metro Cash Flow Reserve:** an amount equal to the City's Estimated portion of the projected cash needs for capital costs of the San Diego Metropolitan Sewerage's Wastewater Treatment Program.

**Sewer Service Fund Emergency/Natural Disaster Reserve:** an amount equal to a minimum of 15% of a single year's budgeted Sewer Service Fund Operating Expenditures.

**Sewer Service Fund Capital Replacement Reserve:** an amount equal to between 10% & 15% of a single year's budgeted Sewer Service Fund Operating Expenditures.

**Sewer Service Fund Capital Expansion Reserve:** an amount equal to between 10% & 15% of a single year's budgeted Sewer Service Fund Operating Expenditures.

#### **Background: City of National City**

The City provides wastewater service to approximately 17,000 customers within the incorporated area of the City of National City. It owns and operates approximately 100 miles of pipeline, 2,000 manholes, and 2 lift stations. The collection, treatment, and disposal of wastewater in an environmentally safe and efficient manner promotes healthy communities and increases the quality of life for local residents.

The City is responsible for collecting and conveying wastewater flows originating within the City to the City of San Diego's Point Loma Treatment Plant for treatment and disposal. The City's primary goals are operating the sewerage system safely and efficiently while meeting the needs of their customers.

To meet these goals, the City undertakes routine cleaning, inspections, and repairs and rehabilitates its facilities as needed. The wastewater system operates in an area subject to strict regulatory oversight by Federal and State agencies such as the U.S. Environmental Protection Agency (US EPA) and the California State Water Resources Control Board (SWRCB). The City must comply with a multitude of laws including, but not limited to, State Wastewater Discharge Requirements (WDRs). Complying with these regulations and resulting mandates contributes to a large share of the cost burden on the City's system.

#### **Background: City of San Diego Metropolitan Sewage Treatment System**

The City is one of thirteen participating agencies (PAs) who send their wastewater to the City of San Diego Metropolitan Sewage Treatment System (Metro) for treatment and disposal. Along with the other PAs the City entered into the Regional Disposal Agreement with San Diego in 1998.



In 2015 the City of San Diego initiated a multibillion-dollar public works project entitled the Pure Water Program which will provide the double benefit of “secondary equivalency” to San Diego’s wastewater customers including National City as well as a significant new potable water supply for the City of San Diego. When the last rate study was completed, there was a lot of uncertainty as to whether the Pure Water Program construction would be funded with cash or with loans. The rates and reserves established by the City in the last rate study included reserves that would have allowed for paying cash for the City’s portion of the cost of the program. Since that time, the City of San Diego has obtained low interest loans for much of the work and thus the reserves needed for the Metro system have greatly reduced and now only include regular Capital Improvement Program projects that are anticipated to be paid for with cash. There for the total dollar of necessary reserves for the City has been reduced.

The construction of the Program is well underway and therefore most of the costs are known, but the City of San Diego has also indicated that there are other inflationary items and potential change orders that will affect the City of San Diego’s projects. An Amended and Restated Regional Wastewater Disposal Agreement between the City of San Diego and the Participating Agencies was adopted in 2018 that updated cost share of this program. Another update is being developed and negotiated that will finalize several elements of that 2018 agreement that were left open. It is anticipated that update will be ready for finalizing in the next 6-12 months. It is not expected that these updates will significantly affect the City’s costs currently projected.