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City Manager's Report
May 14, 2024, City Council Meeting
Prepared by: Dave Warren, Assistant City Manager/Director of Finance
Item #: 12.3

Subject: Receive a status update on the Sewer and Water Rate Study (CIP #42236) and provide direction to staff on certain study assumptions.

Recommendation:
Receive a status update on the Sewer and Water Rate Study (CIP #42236) and provide direction to staff on certain study assumptions.

Purpose:
To provide a status update on the Sewer and Water Rate Study (CIP #42236) which will project costs and revenue needs for operating and maintaining the City's water and wastewater systems over the next five years, calculate the associated user rates, and provide direction to staff on certain study assumptions.

Strategic Plan Strategy:
Fiscal Stability/Sustainability: 2) Strategy - Increase Revenues. b. Perform and implement new five-year water and wastewater rate study.

Background:
Due to the normal inflationary impacts to personnel, services and supplies, staff anticipates the cost of providing water and wastewater services will continually increase each year for the next five years. In order to offset these costs, both the water and wastewater rates need to be incrementally adjusted each year. The last multi-year water and wastewater rate schedules were adopted by the City Council on February 13, 2018, and the associated rates were implemented according to the plan over the past five years. State Proposition 218 of 1996 mandates that rate schedules not extend beyond five years from the adoption date. The maximum water and wastewater rates included in the adopted 2018 rate schedule became effective June 16, 2022 or within the five-year period of time. In order to raise the water and wastewater rates in the future, the City will need to perform a study, which is currently underway, provide a notice to the ratepayers, hold at least one Public Hearing, and adopt the new rate schedule.

At its meeting held on November 9, 2022, the City Council approved an agreement with Bartle Wells Associates (BWA) to perform the rate study in the amount of $29,000.00. Since that time, staff and BWA have made steady progress on preparing the study and associated analysis.

Discussion:
Similar to the last study, staff recommends using the average five-year change in the San Francisco Oakland Hayward Consumer Price Index-All Urban Consumers Consumer Price Index, which is calculated to be 3.53%, to adjust most service and supply costs each year for the next five years. For supplies with more volatile pricing such as fuel and chemicals, staff recommends using industry trends and indexes to establish projected costs for those items.

Personnel costs are recommended to be calculated based on anticipated staffing and the most current salary and benefit trends, including negotiated items for the affected employee units. Between July 1, 2018 and June 30, 2022 (five years), the City expended on average $419,855 each year for water infrastructure projects and $860,432 each year for wastewater infrastructure projects, which were partially paid for by the Measure H Fund and the Measure L Fund. Staff recommends assuming these costs in the rate study.

At its meeting held on December 11, 2023, the El Dorado Irrigation District Board of Directors approved its new retail water rates for the following five-year period. The adopted retail water rates for calendar years 2024 through 2028 assume 13%, 12%, 12%, 12%, and 12% increases each year respectively. City staff has met with EID staff regarding the proposed wholesale water rates for the City of Placerville for the same period. EID proposes that the City's wholesale water rates increase by the same percentages as their retail rates over the next five years. Staff plans on presenting the proposed wholesale water rates, that will become effective July of this year, to the City Council on May 28, 2024.

While reviewing the City's current workload, infrastructure, and staffing needs, the Project Team, which is comprised of the City Manager, City Engineer, Director of Public Works, Assistant Finance Director, and the Assistant City Manager/Director of Finance, identified additional program and personnel needs over the next five years including:

- A wastewater certification advancement program for Water Reclamation Facility Division Operators.
- Reclassification of an existing Water Reclamation Facility Operator IV position and a Water Reclamation Facility Operator III position to two Water Reclamation Facility Senior Operator positions.
- The addition of a new Lab Assistant position and a new Maintenance Mechanic position to address current workload and needed transition planning at the Water Reclamation Facility Division.
- Reclassifying the current Public Works Superintendent position to a Deputy Public Works Director position to help manage the additional Federal and State regulations and reporting and provide a true backup in the absence of the Director of Public Works
- A water and wastewater certification advancement program for Public Works Department Maintenance Workers.
- The addition of three new Utility Services Specialist positions to address the increase workload related to more stringent Federal and State water and wastewater regulations, USA locating regulations, fire hydrant maintenance, and distribution valve maintenance.

Additional Utility Services Specialist Positions

The three new positions would help address the increased workload due to 2020 legislation and regulations. The positions would assist with the modernization of equipment used to complete USA locating (GPR, online portal, GIS map updates, frequency locator). These actions will help reduce the potentials for risk of the City, its contractors, and outside parties digging in the wrong place. Staff recommends adding USA locating duties due to increased regulations and Grade 2 Water Distribution Certification to the Utility Services Specialist job description.

Currently fire hydrants are maintained and serviced when issues are reported. In the past year, four non-operational hydrants were discovered. These new positions would give the Public Works Department the necessary resources to move to proactive annual maintenance. Hydrant locations are generally "dead end lines," and regular flushing helps maintain higher water quality and

distribution system maintenance while lessening internal pipe scale and buildup, extending the life of pipes. This proactive approach would also reduce the risk of additional damage to life and property during fire related emergencies

Distribution valves are our greatest tool in isolating smaller sections of the Distribution System for repairs during line breaks to minimize impacts to residents. By proactively cleaning valve boxes and exercising them greatly extends their useful lives. Staff regularly finds valve boxes filled with sediment and non-operational, usually during an emergency main break. Replacing nonfunctional valves costs $10,000 to $15,000 each. Hence the importance of funding these positions.

New Maintenance Worker Water and Wastewater Certification Advancement Program

The proposed advancement program to Journey Level implements flexibly staffed positions that allow advancement upon successful attainment of the necessary education, experience, and proficiencies of the higher-level classification specification. This program applies to Maintenance Worker I through Maintenance Worker II positions to incentivize in-house advancement of current staff in support of staff retention and succession planning for the Water Distribution and Sewer Collection Divisions within the Public Works Department. A Maintenance Worker I may advance beyond their current level position upon meeting two requirements; 1.) Passing the state exam for the California State Water Resources Control Board Grade I Water Distribution exam or the California Water Environmental Association Grade I Collections exam and obtain the associated certificate. 2.) Satisfactory performance of one year or more at the City's Public Works Department.

Currently, there is available advancement of a certification-based position at the Public Works Department outside of the Alternative Service Level process during Fiscal Year Budget Development. When a Maintenance Worker I passes their examination and fulfills the requirements of the next higher-level position, promotion to a higher level is not available and the City is at risk to lose highly qualified staff to nearby agencies that do incentivize advancement. Consequences of not funding the advancement program include loss of institutional and operational knowledge of the City's waterlines and sewer lines, inability to retain qualified staff, and direct negative impacts to the succession planning of the Public Works Department.

New Deputy Public Works Director Position

This position would reclassify the existing Public Works Superintendent position to a Deputy Public Works Director position and provide additional support for the current Director of Public Works. In recent years, the Public Works Department has experienced a substantial increase in workload due to regulatory reporting requirements. In 2023, statewide changes to the Spill Emergency Response Plan changed from a 3-page reporting document to a 37 page one required for every sewer spill. Water system reporting has increased due to drought conservation reporting from the state, Unregulated Contaminate Monitoring from the EPA, and also a water service line inventory for both the public and private sides of a water service. Underground service alert reporting requirements have also increased along with the number of USA tickets the department is required to respond to. From 2021 to 2022, the number of tickets increased from 1,600 to 6,700 tickets. This position would also serve as the Director of Public Works in the absence of the Director.

New Wastewater Certification Advancement Program for the Water Reclamation Facility Division Operators

The proposed advancement program to Journey Level implements flexibly staffed positions that allow advancement upon successful attainment of the necessary education, experience, and proficiencies of the higher-level classification specification. This program applies to Water Reclamation Facility Operators I through III to incentivize in-house advancement of current staff in support of staff retention and succession planning for the Facility. An Operator may advance

beyond their current level position upon meeting two requirements; 1) passing the state exam for the respective higher certification and 2) completion of necessary hours and proficiency to attain the higher certification. In the case of advancing to an Operator III position, the employee will become eligible to advance upon satisfactory performance of two years or more at the City's Water Reclamation Facility. The Chief Plant Operator position is not flexibly staffed and exempt from this advancement program. Currently, there is available advancement of a certification-based position at the Water Reclamation Facility outside of the Alternative Service Level process during Fiscal Year Budget Development. When an Operator passes their examination and fulfills the requirements of the next higher-level position, promotion to a higher level is not available and the City is at risk to lose highly qualified staff to nearby agencies that do incentivize advancement. Consequences of not funding the advancement program include loss of institutional and operational knowledge of the WRF, inability to retain qualified staff, and direct and negative impacts to the succession planning of the facility.

New Water Reclamation Facility Senior Operator Positions

The creation of 2.00 FTE Water Reclamation Facility (WRF) Senior Operator positions and the abolishment of 1.00 FTE Water Reclamation Operator IV position and 1.00 FTE Water Reclamation Operator III position. The Water Reclamation Facility Senior Operator position leads, assigns and oversees the work of the WRF Operators, coordinates and oversees operational activities, assists in managing Capital Improvement Projects, and acts on behalf of the Chief Plant Operator in his/her absence.

Creation of a full-time Senior Operator position would incentivize staff in the Operator III position to take on a more leadership type of role with increased responsibilities. The WRF Senior Operator is responsible for operations and often involves on-call duties and remote monitoring of the plant after hours. This is a senior, supervisory level above Operator III position. A new hire with a Grade III Wastewater Operator's License from State of California State Water Resources Control Board and two or more years of experience in operations in a leadership role, or an employee with two or more years of exemplary performance as an Operator at the WRF upon receiving a Grade III license, would be eligible to advance to Senior Operator. The Operations Manual for the plant prescribes staffing levels that include: (1) chief plant operator, (3) senior operators, (3) operators, (1) mechanic, (1) instruments technician, (1) grounds maintenance person, and (1) administrative person. The current staffing comprises (1) chief plant operator, (1) Operator IV, (2) Operator IIIs, (3) Operator IIs, (1) Senior Maintenance mechanic, and (1) Lab Director. The duties for the positions of instrument technician, grounds maintenance, and administrative person are spread among the existing staff. Creation of the Senior Operator position will create a distinct senior level position with increased responsibility above the Operator positions (Operator I-II-III).

Providing incentives for WRF staff advancement is critical in employee retention and succession planning of the facility. Additionally, there is limited backup for the senior operational staff, including the CPO, in the case of illness, extended absence, or vacation.

New Lab Assistant Position

Staff requests the creation of a full-time Lab Assistant position within the Water Reclamation Facility Division. This position is the journey level class in the Lab series and will provide support services to the Lab Director, all at the direction of the Chief Plant Operator. This position would perform chemical, biological, mineral, and bacteriological tests for water and wastewater, assist with preparing and submitting a variety of reports, and maintaining a variety of files. It's anticipated that the current Lab Director will retire within the next five years, and her acquired skillset and institutional knowledge from more than 15 years with the City is invaluable.

New Maintenance Mechanic Position

Staff requests the creation of a new full-time Maintenance Mechanic position within the Water Reclamation Facility Division. This position is the journey level class in the Maintenance Mechanic series and will provide support services to the Senior Maintenance Mechanic, all at the direction of the Chief Plant Operator. These services include the maintenance and repair of the City's wastewater treatment facilities, performing a wide variety of routine to complex preventative and corrective maintenance on a wide variety of pumps, engines, and other equipment, and operating and maintaining a variety of hand and power tools and equipment.

The current Senior Maintenance Mechanic is nearing retirement and his acquired skillset and institutional knowledge from more than 22 years with the City is invaluable. It is difficult to find candidates that will not only contain the mechanical background that is needed for the position, but also the electrical knowledge that is necessary to help repair the vast types of equipment and systems of the plant. The City will highly benefit in having the Maintenance Mechanic and Senior Maintenance Mechanic overlap for a period of time so that the new person can be trained on processes and learn from the Senior Maintenance Mechanic.

Consequences of not funding the Maintenance Mechanic position includes loss of institutional and operational knowledge of the WRF after the Senior Maintenance Mechanic retires, and direct negative impacts to the succession planning of the Facility.

If approved, these positions and programs would be implemented gradually over the five-year period.

The current and proposed staffing for the Engineering Department is as follows:

Department Staff by Position	Adopted 2023/2024	Proposed 2024/2025	Proposed 2025/2026	Proposed 2026/2027	Proposed 2027/2028	Proposed 2028/2029
City Engineer	1.0	1.0	1.0	1.0	1.0	1.0
Senior Engineer	2.0	2.0	2.0	2.0	2.0	2.0
Associate Engineer	1.0	1.0	1.0	1.0	1.0	1.0
Administrative Assistant	0.5	0.5	0.5	0.5	0.5	0.5
Engineering Specialist	1.0	1.0	1.0	1.0	1.0	1.0
Water Reclamation Facility Chief Plant Operator	1.0	1.0	1.0	1.0	1.0	1.0
Water Reclamation Facility Operator IV	1.0	0.0	0.0	0.0	0.0	0.0
Water Reclamation Facility Operator III	2.0	1.0	0.0	1.0	2.0	2.0
Water Reclamation Facility Senior Operator	0.0	2.0	3.0	3.0	3.0	3.0
Lab Director	1.0	1.0	1.0	1.0	1.0	1.0
Lab Assistant^	0.0	0.0	1.0	1.0	1.0	1.0
Senior Maintenance Mechanic	1.0	1.0	1.0	1.0	1.0	1.0
Maintenance Mechanic^	0.0	1.0	1.0	1.0	1.0	1.0
Water Reclamation Facility Operator II*	3.0	3.0	3.0	2.0	1.0	1.0
Total	14.5	15.5	16.5	16.5	16.5	16.5

*Water Redamation Facility Operator II and III positions are subject to annual recommendations by the City Manager based upon employee wastewater certification changes.

^Both the Maintenance Mechanic and Lab Assistant positions are preliminary recommendations that are subject to change.

The current and proposed staffing for the Public Works Department is as follows:

Department Staff by Position	Adopted 2023/2024	Proposed 2024/2025	Proposed 2025/2026	Proposed 2026/2027	Proposed 2027/2028	Proposed 2028/2029
Public Works Director	1.0	1.0	1.0	1.0	1.0	1.0
Deputy Public Works Director	0.0	1.0	1.0	1.0	1.0	1.0
Public Works Superintendent	1.0	0.0	0.0	0.0	0.0	0.0
Senior Maintenance Worker	2.0	2.0	2.0	2.0	2.0	2.0
Maintenance Worker II*	3.0	4.0	5.0	6.0	6.0	6.0
Maintenance Mechanic	1.0	1.0	1.0	1.0	1.0	1.0
Maintenance Worker I*	3.0	2.0	1.0	0.0	0.0	0.0
Traffic Maintenance Worker	1.0	1.0	1.0	1.0	1.0	1.0
Water Meter Technician	1.0	1.0	1.0	1.0	1.0	1.0
Utility Services Specialist	1.0	2.0	3.0	4.0	4.0	4.0
Administrative Assistant	0.5	0.5	0.5	0.5	0.5	0.5
Total	14.5	15.5	16.5	17.5	17.5	17.5

*Both Maintenance Worker I and II positions are subject to annual recommendations by the City Manager based upon employee water and/or wastewater certification changes.

The aggregate cost of all of the recommended personnel changes over the five-year period in today's dollars is $716,808 as shown below:

Description	Total Cost	General Fund	Water Fund	Sewer Fund
Engineering Department				
Less: Water Reclamation Facility Operator IV Position (1.00 FTE)	$ (159,727)	$ -	$ -	$ (159,727)
Less: Water Reclamation Facility Operator II Position (2.00 FTE	(282,191)	-	-	(282,191)
Add: Water Reclamation Facility Senior Operator (3.00 FTE)	463,058	-	-	463,058
Add: Maintenance Mechanic Position^	138,495	-	-	138,495
Add: Lab Assistant Position^	131,387	-	-	131,387
Subtotal Engineering Department	**291,023**	**-**	**-**	**291,023**
Public Works Department				
Add: Deputy Public Works Director Position	171,494	57,159	57,159	57,176
Less: Public Works Superintendent Position	(164,114)	(32,823)	(98,468)	(32,823)
Add: 3.00 FTE Utility Services Specialist Positions	397,827	-	198,914	198,914
Less: Maintenance Worker I Position (3 FTE)	(320,638)	(80,159)	(80,159)	(160,319)
Add: Maintenance Worker II Position (3 FTE)	341,215	85,304	85,304	170,608
Subtotal Public Works Department	**425,785**	**29,480**	**162,749**	**233,556**
Total Engineering Department and Public Works Department	**$ 716,808**	**$ 29,480**	**$ 162,749**	**$ 524,579**
1.00% Rate Increase		N/A	$ 24,513	$ 72,127
Equivalent Rate Increase		**N/A**	**6.64%**	**7.27%**

^Both the Maintenance Mechanic and Assistant Lab Director positions are preliminary recommendations that are subject to change.

The estimated annual cost increase to the Water Enterprise Fund is $162,749 or equivalent to a 6.64% rate increase. The estimated annual cost increase to the Sewer Enterprise Fund is $524,579 or equivalent to a 7.27% rate increase.

Due to the City's current wastewater rates being relatively high as compared to other agencies in the surrounding area, staff explored options to help fund these additional personnel costs. One potentially viable option would be for the Measure H Fund to absorb additional debt service for the past improvements to the Water Reclamation Facility, thereby freeing up those dollars to help pay for additional personnel costs and avoiding the full 7.27% increase in wastewater rates.

By using more Measure H Funds to pay Sewer Enterprise Fund debt service will result in less funds available for wastewater projects. For example, The Sewer Relocation - Clay Street to Locust

Avenue project (CIP #41202) would be most significantly affected by this proposed plan. The project is currently heading into final design, and construction is anticipated in Fiscal Year 2025/2026. The construction phase is not currently funded, and staff is recommending the Measure H Fund pay for the project. The current cost estimate is approximately $3,000,000, which includes soft costs for construction engineering and inspections. A reduction in Measure H funds for CIP projects would delay this project by at least a year. This would trickle down and affect the implementation of other Measure H sewer projects that are currently in the design/environmental phase, like the Acacia Way Sewer Line Replacement project (CIP #42332) with estimated construction in Fiscal Year 2027/2028.

Below is an example of the maximum impact this change would have to the Measure H Fund net revenues:

Description	Adopted Fiscal Year 2023/2024 Budget	Draft Proposed Budget	Increase/ (Decrease)
Projects and Reserves	$ 955,930	$ 455,930	$ (500,000)
Sewer Enterprise Fund Debt Service^	516,070	1,016,070	500,000
Total	**$ 1,472,000**	**$ 1,472,000**	**$ -**

^The proposed additional debt service for the Sewer Enterprise Fund would be up to a maximum of $500,000 or a total of $1,016,070.

Staff presented this funding concept to the Measures H/L Sales Tax Committee at their meetings held on February 5, 2024 and April 15, 2024. The Measure H Fund currently pays for $516,070 in Sewer Enterprise Fund debt service. At its meeting held on April 15, 2024, the Committee recommended that the City Council use up to $1,016,070, in Fiscal Year 2024/2025 Measure H Fund net revenues for Water Reclamation Facility debt service in developing the current water and wastewater cost of service study. This would result in up to an additional $500,000 in Measure H Funds being used for Sewer Enterprise Fund debt service, thereby freeing up those dollars for the proposed changes in personnel and minimizing the impact to the ratepayers.

Options:

1. Direct staff and BWA to assume the assumptions mentioned above including the Measure H Fund expending up to $1,016,070 on Sewer Enterprise Fund annual debt service for the cost of service study.
2. Direct staff and BWA to assume the assumptions mentioned above including the Measure H Fund expending a different amount of Sewer Enterprise Fund annual debt service for the cost of service study.
3. Direct staff to staff to take other actions.

Environmental:

Tonight's action has no associated impacts.

Cost:

The proposed cost increase in debt service costs borne by the Measure H Fund would be up to $500,000. The actual cost increase to the Measure H Fund will increase each year for the next five years. For example, the projected additional cost in Fiscal Year 2024/2025 is $231,642.

Budget Impact:
There is no immediate budget impact associated with tonight's action. Once the cost of service study is completed and approved by the City Council, staff will incorporate the associated revenue and expenditures assumption in future budgets.

M. Cleve Morris, City Manager

Dave Warren, Assistant City Manager/Director Finance