



# Budget Engagement Commission

*City of Arts & Innovation*

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**TO: HONORABLE COMMISSIONERS** **DATE: APRIL 5, 2018**

**FROM: FINANCE DEPARTMENT** **WARD: ALL**

**SUBJECT: REVIEW OF THE BASELINE FISCAL YEAR 2018-23 FIVE-YEAR FINANCIAL PLANS FOR THE PUBLIC PARKING, SOLID WASTE, AND SEWER FUNDS**

**ISSUE:**

Review of the Baseline Fiscal Year 2018-23 Five-Year Financial Plans for the Public Parking, Solid Waste, and Sewer funds.

**RECOMMENDATIONS:**

That the Budget Engagement Commission (BEC) receive and provide feedback on the Baseline Fiscal Year 2018-23 Five-Year Financial Plans for the Public Parking, Solid Waste, and Sewer funds. The Five-Year Financial Plan is a tool for the City to estimate the fiscal impacts of policy decisions over a longer term.

**PUBLIC PARKING FUND**

**BACKGROUND:**

In 2016, the Public Works Department Public Parking Services Division contracted with Dixon Resources to conduct a study and develop a Strategic Parking Plan (Plan) that would help the City prepare for future parking needs through progressive parking strategies and maximization of the existing parking supply. The Plan outlined a phased-in approach, which included 18 items related to rate increases and nine items related to parking experience enhancements.

Findings and recommendations were initially presented to the City Council on January 24, 2017. After being asked to return with additional information, a two-year alternative plan was approved by the City Council on March 21, 2017. This alternative plan included six items related to rate increases and six items related to parking experience enhancements.

**DISCUSSION:**

Current estimates indicate the Public Parking Fund is operating at a deficit and may continue to do so. Several significant factors are contributing to the approximate \$200,000 annual deficit (Attachment 1). Shortages in the Public Parking Fund will be supplemented by the General Fund, however, no General Fund dollars have been factored into the five year plans.

1. Expenditure Assumptions:

Operational costs such as materials, supplies, and frequency of maintenance are all increasing. Aging infrastructure including garages, parking meters and revenue control equipment require constant repair. Demands for enhanced parking

experiences (lighting, security, and wayfinding) are also on the rise.

2. Revenue Assumptions:

The loss of several parking facilities to development (Garage 3 and Lots 19, 27, 33, 40, 44, and 50) will cause an estimated annual decrease in net revenues of \$360,000. The 900 spaces lost accounts for 32% of the total parking inventory. Additionally, the partial approval of the original Plan is limiting revenue growth and directly impacting working capital over the next five years.

This decline in working capital will prevent or delay several key program initiatives:

1. Parking Meters – Replacement of meters which have reached their end of useful life and will no longer be able to offer credit card payment options due to regulatory compliance issues
2. LED Lighting – Upgrade the lighting in the garages to promote safety through greater visibility and reduce electricity costs
3. Wayfinding – Enhance and update signage to help patrons find parking and venue destinations
4. Garage 1 – Replace aging outdated structure (55 years old), low clearances, inefficient use of space
5. Garage 2 – Replace aging outdated structure (55 years old), low clearances, inefficient use of space
6. Technology – “Connectivity” and “Discoverability” mobile apps are convenient and empower customers to make informed choices to enhance customer experience

BALANCING MEASURES:

Staff recommends several items for consideration that could help offset the estimated deficit:

1. Implementation of additional Plan recommendations (not previously approved)
  - a. Reduce 90 minute free parking to 60 minutes
  - b. Eliminate Reserved Permit Parking program
  - c. Increase daily maximum rate to \$10
  - d. Extend metered end time to 6:00 p.m.
  - e. Adjust evening rate hours to start at 6:00 p.m. on Thursday to Saturday
  - f. Implement demand-based pricing to maximize utilization
2. Increase of the base parking fine – An analysis will need to be completed to consider increasing current base fine of \$25
3. Assessing a surcharge on new development that replaces parking facilities and/or lost operating revenue
4. Allocating a portion of parking facility or land value sale proceeds to the Public Parking Fund to compensate for lost revenues

## **SOLID WASTE FUND**

### **BACKGROUND:**

The Public Works Department Solid Waste Division provides high quality residential and commercial trash collection, recycling and street sweeping services. Collection of trash and recycling is provided by a combination of City crews and contract services. For residential service, City crews service approximately two-thirds of the residents and Burrtec Waste Industries (Burrtec) services the remaining one-third of the City. Burrtec's residential contract expires December 31, 2018. A decision on the disposition of the residential contract will in part be dependent upon Performance Audit findings, which is addressed further later in this report. Commercial services are provided by three contractors (Athens, Burrtec and CR&R) as approved by City Council on January 23, 2001. On January 23, 2018 City Council approved term extensions to all three commercial refuse service contracts through June 30, 2023.

Residential and commercial services are funded primarily by rates approved by the City Council. Other revenue sources include recycling, street sweeping parking fines and state funded recycling grants.

The Public Works Department is undergoing a department-wide performance audit which is anticipated to be completed by summer. A review of the Refuse operation and fund is one of the focus areas of the audit, which may include analysis of outsourcing opportunities.

### **DISCUSSION:**

Based upon the current budget planning process which consists of a two-year budget in the context of a Five-Year Financial Plan, the Solid Waste Fund is projected to end Year 2 (FY 2019/20) with a negative Fund Balance estimated at nearly \$600,000. Assuming there are no changes to the operation, this negative trend accelerates by the end of Year 5 (Attachment 2).

For the past 10 years, residential and commercial Solid Waste rates have increased by the Consumer Price Index. Commercial rates had a one-time minor increase for waste processing costs. It is important to note that, like many other industries in California, refuse / recycling collection and processing services are experiencing significant pressure to meet increasingly strict regulatory mandates and absorb labor cost increases. The outcome is expenditures are currently outpacing revenues.

#### **1. Revenue Assumptions:**

As of July 1, 2018, the operation does not have any future rate increases approved. Without any rate increases, opportunities to grow revenues is limited. One way to grow revenue is through an increase in private development, but this alone is not nearly sufficient to cover increasing operating costs. Another way to increase revenue is through recycling. Unfortunately, current market forces are creating negative demand for recyclables due to China's recent waste import ban on some materials (select papers and plastics) and price reductions for certain high volume materials (i.e. cardboard). These changes went into effect January 1, 2018 (Waste Dive, October 2017).

2. Expenditure Assumptions:

Several of the main expense categories for the refuse operation are subject to external factors, such as disposal, processing, outside contract costs, and City overhead and labor cost increases driven in part by CalPERS. The City is also responsible for maintaining a closed City landfill and for equipment costs which include truck replacement, fuel and maintenance as well as the purchase and replacement of automated residential trash containers for all service areas.

Primary influences to the major expenditure categories are greater demands for service (i.e., CURE events, railroad, on/off ramp and Homeless Clean Ups), and regulatory mandates (new organics management rules and costly air quality mandates for refuse equipment).

In FY 2017/18, staff has substantially increased services in response to homeless clean ups. In prior years for example, the City scheduled approximately two clean ups per year. In the current fiscal year, requests for service have escalated to a minimum of two clean ups per month with an estimated annual cost of nearly \$400,000-\$500,000. A side effect of these clean ups is an increase in overtime because core functions must still be completed. The Solid Waste crew is extremely responsive and has provided first-class service; unfortunately, the Fund has been absorbing these new costs, and staff expects a continual rise in these costs for an unknown term.

**BALANCING MEASURES:**

Staff recommends several items for consideration that could help offset the estimated deficit:

1. Decrease equipment purchases in the next two years by \$600,000 as a short-term balancing measure through the end of Year 2.
2. Decrease personnel budget by \$100,000 as a vacancy factor.
3. Staff is actively participating with the Performance Audit consultant and will rely on findings to guide and inform future actions as it relates to the Five-Year Financial Plan for the Solid Waste Fund.

**SEWER FUND**

**BACKGROUND:**

The Public Works Department, Wastewater Division, is responsible for the collection and treatment of wastewater for over 93,000 customers within City limits. The facilities consist of over 800 miles of gravity sewers, 19 wastewater lift stations, and the Riverside Regional Water Quality Control Plant (RWQCP) which has the capacity to treat 46 million gallons per day. Additionally, the RWQCP provides wastewater treatment for the Edgemont, Jurupa, and Rubidoux Community Services Districts, and the unincorporated community of Highgrove.

On May 13, 2014, the City Council, approved a five year Sewer Services Rate Plan to address the sewer fund revenue shortfall created by the recession and to finance required sewer system capital improvements.

On November 15, 2016, the City Council adopted a Sewer Enterprise Fund Reserve Policy. The policy was designed in an effort to establish guidelines to ensure the fiscal stability of

the Sewer Enterprise Fund and to provide guidance to staff in the financial management of the Wastewater Division.

On December 19, 2017, the City Council received and filed an analysis of Sewer Enterprise Fund service rates, reserves, and the actual operating revenues and expenditures for FY 2016/17, the third year of the associated Five-Year Rate Plan. They also reviewed the projected revenue and expenses for FY 2017/18 and 2018/19. Based on the financials presented at that time, rate increases were rescinded.

#### DISCUSSION:

Current trends indicate the Sewer Enterprise Fund is operating at a deficit. Several factors, such as rising costs of goods and services, an 8.5% rate increase rescinded in FY 2018/19, and debt service commitments are contributing to the deficits during the five-year term. Also included is an additional \$983,000 the Council authorized for continued legal work for the Rubidoux Community Service District.

A major contribution to the deficit is the debt payments for the 2009B and 2015A Bonds. The debt was structured so that the City would pay interest only for the first few years and would begin paying principal beginning FY 2017. The planned rate increases were intended to pay for the increased payments as they came due. As such, debt service for these two bonds for FY 2017 was \$17.5 million and will be increasing to \$28.5 million for FY 2019 and \$28.5 million for FY 2020. (Attachment 3)

#### Capital Improvement Program and Infrastructure Investment (CIP)

Over the last several years the City has completed significant investment in its wastewater collection and treatment facilities. Below is a listing of capital projects that have been completed.

- \$195 Million Regional Water Quality Control Plant Phase 1 Rehabilitation and Expansion
- \$32 Million Santa Ana River trunk sewer replacement (Alessandro / Trautwein)
- \$5 Million Emergency Sewer Force Main Rehabilitation
- \$9 Million of treatment plant system rehabilitation
- \$4 Million of priority sewer pump station and sewer collection pipeline

In the Five-Year Financial Plan for FY 2018-23, the Wastewater Division has submitted a CIP budget total of \$5.6M.

Approximately \$95 Million in CIP has been funded through FY 2018/19 and financed through issuance of Revenue Bonds backed by the Five-Year Sewer Rate Plan. The amount of debt service was based on the Five-Year Sewer Rate Plan. Rescinding the FY 2018/19 rate increase impacts the working capital and reserve levels to meet the debt payments.

Evaluation of future infrastructure investment requirements and financing alternatives is included in the Wastewater Master Plan and Five-Year Rate Plan Project that is currently in progress. The estimated time of completion of the updated Wastewater Master Plan is Fall 2018.

**BALANCING MEASURES:**

Staff recommends several items for consideration that could help offset the estimated deficit:

1. Cover projected shortfalls with Sewer Fund's Reserve – If this approach is implemented, the FY 2018/20 Two-Year budget for the Sewer Fund will be updated to reflect appropriations from the Sewer Fund's reserve to cover projected shortfalls of \$5.48M in FY 2018/19 and \$3.4M in FY 2019/20. By moving forward with this approach, the total reserve of \$45.5M would still be within the Sewer Fund's Reserve Policy minimum of \$36.7M overall.
2. Explore Bond Restructuring – During the FY 2018/20 two-year budget, staff will continue to monitor cost saving opportunities to reduce the impact to the rate stabilization component of the Sewer Reserve. For example, during this time, Public Works and the Finance Department will look at a way to restructure the 2009 Build America Bonds to lower annual costs without extending the term of the debt.
3. Reduce Number of Full-Time Equivalents (FTEs) – The total number of FTEs was reduced from 119 to 117 starting in the FY 2018/20 two-year budget. This number of FTEs is considered the baseline staffing level needed to adequately maintain services at the RWQCP.
4. Wastewater Master Plan & Five-Year Rate Plan is in Progress – The Public Works Department is in the process of updating the 2008 Wastewater Master Plan. The Master Plan update and Five-Year Rate Plan project will be completed by Fall 2018.

The goals of the Master Plan Update are to:

- a. Re-evaluate the 2008 Master Plan results;
- b. Evaluate current infrastructure needs of the sewer collection system and treatment plant;
- c. Develop an updated CIP; and
- d. Develop sewer rate and financing alternatives for the next Five-Year planning cycle for FY 2019/20 through 2023/24.

**FISCAL IMPACT:**

There is no fiscal impact associated with this report.

Prepared by:	Kris Martinez, Public Works Director
Approved as to	
Availability of funds:	Adam Raymond, Chief Financial Officer/Treasurer
Approved by:	Marianna Marysheva, Assistant City Manager

**Attachments:**

1. Public Parking Fund 2018-23 Five-Year Financial Plan & Presentation
2. Solid Waste Fund 2018-23 Five-Year Financial Plan & Presentation
3. Sewer Fund 2018-23 Five-Year Financial Plan & Presentation