

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: July 28, 2011

TO: Honorable Jan Perry, Chair
Honorable Tony Cardenas, Co-Chair
Honorable Richard Alarcon
Honorable Paul Koretz
Honorable Paul Krekorian
Energy and Environment Committee

FROM: Enrique C. Zaldivar, Director
Bureau of Sanitation, Department of Public Works

SUBJECT: CLEAN WATER (WASTEWATER) PROGRAM- REPORT BACK- CF10-1947

On May 3, 2011 your Committee considered the Bureau of Sanitation (BOS) Clean Water (Wastewater) Program Status Report dated March 24, 2011, which includes a rate adjustment proposal. Sanitation presented three different scenarios as possible models for a rate adjustment plan: a 5-year, a 7-year and a 10-year plan.

As part of the actions of your Committee, you instructed the CAO's office to prepare their independent report on the subject, and instructed BOS to report back with a status of our efforts in the community, public and stakeholder outreach related to the rate adjustment proposal, as well as a number of other updates relative to the financial metrics related to the rate models.

I. Public Outreach Efforts

Immediately following your Committee meeting of May 3, 2011, BOS has undertaken an extensive outreach effort to community groups, neighborhood councils, business groups and environmental groups. In total, we have held 43 presentation and feedback sessions, with 9 additional ones scheduled for the near future. Our presentation consists of a brief background of the Clean Water Program, the essence of its mission to protect public health and the environment, and the financial underpinnings of the program and its proposed rate adjustment. We have been extremely pleased and happy to tell you that the feedback we have received has been unanimously positive; we have been humbled by the gesture of support, with the Los Angeles Business Council, LAX Coastal Area Chamber of Commerce and Rampart Village Neighborhood Council even writing letters of support (Attachment A).

Attachment B lists the various groups that have received presentations, are scheduled in upcoming weeks, and have been contacted. BOS has contacted all of the Council offices for additional outreach ideas and have made presentations to all of the suggested groups.

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II. Financial Metrics

The March 2011 Status Report contained a recommendation to adopt a policy of maintaining minimum cash balances of \$30 million and \$100 million for operations and maintenance (O&M) and capital, respectively. The \$100 million minimum was reasonable when the Capital Improvement Program (CIP) was \$250 million per year. Since the CIP has been scaled back and will likely remain below \$200 million per year, BOS now recommends that the minimum cash balance be set to one-half of that fiscal year's budgeted CIP. That will ensure that sufficient funds are available for the construction work without maintaining a large cushion in the years when the CIP is smaller.

The debt service coverage ratio is an annual calculation of (revenues - operating expenses)/ debt service. The original report recommended minimum debt service coverage ratios of 2.5x for senior lien debt and 1.5x for all debt. The revised minimum recommendations are 2.45x for senior debt and 1.45x for all debt. While these coverage ratios are lower than typically found in an AA rated credit, it is believed that the lower financial metrics can be balanced by a multi-year commitment to adjust rates annually. The targeted levels at the end of the rate adjustments are 3.00x for senior debt and 1.75x for all debt, which will leave the program in a healthy financial condition for future years.

III. Other Report Backs

At the May 17, 2011 Energy and Environment Committee meeting, the committee asked BOS to review the sewer service charges for cities near the bottom of the rate comparison of large cities that was included in the Status Report.

The city of Memphis was the large city with the lowest monthly residential charge in 2009, at \$7.19. In 2010, Memphis increased this monthly charge to an average of \$17.00, an increase of 136 percent. The news article relating this increase stated the funds will be used to "improve the city's outdated sewer system" and that the "department had been operating in the red." The largest concern raised in the article is that the increase occurred without public notice.

The city of Denver was ~~second-lowest~~ in the 2009 survey, with a monthly residential charge of \$14.63. Denver raised rates by 45 percent on July 1, 2011, with 15 percent and 10 percent increases approved to be effective in 2012 and 2013, respectively. This will result in a monthly charge of \$26.78, an 83 percent increase over the three years.

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This review confirms that when agencies do not keep pace with rising costs or do not continue to reinvest in their infrastructure, significant rate increases are the result.

IV. Next Steps

- **Approval Process**

The revenue issues discussed in this report have different approval timelines and processes. While not all of the recommendations require the Proposition 218 process, it is recommended that all of the adjustments have the same effective date of January 1, 2012. A summary of the projected activities and approval timeline for the proposed rate adjustments is shown below.

Approval Process for Clean Water Program Rate Adjustments

Activity	Start	Finish
BOS submits report to Mayor & City Council	3/24/11	3/24/2011
N.C. and Stakeholder Outreach	3/28/2011	7/5/2011
Authorization for Prop 218 notification		
Consideration & Approval by Energy & Environment Committee	3/25/2011	8/2/2011
Consideration & Approval by City Council	8/3/2011	8/12/2011
Mayor's Concurrence	8/13/2011	8/19/2011
Print & Mail Prop 218 Notifications	8/20/2011	9/12/2011
Public Hearing @ City Council (after 45 days)	10/28/2011	11/2/2011
2nd Hearing if needed	11/4/2011	11/15/2011
Mayor's Concurrence	11/16/2011	11/23/2011
Post Ordinance	11/24/2011	11/28/2011
30 Days Public Review	11/28/2011	12/28/2011
Ordinance for all rate adjustments in effect	1/1/2012	

- **Pending Award of CIP Projects**

BOS has halted the award of all construction projects that are not part of the Collection System Settlement Agreement (CSSA) while the rate adjustments

are under discussion. This reduces the liability to the CWP until there is certainty that funds will be available to pay for these construction contracts. Significant delays in implementing the rate adjustments will require that the CSSA projects also be placed on hold. The available funding will be focused on operating and maintenance of the system, payment of debt service, completing construction contracts that have already been awarded, and funding emergency projects. This would reduce the 2011-12 CIP expenditures from a planned \$115 million to approximately \$60 million, and reduce 2012-13 to approximately \$40 million.

ECZ/LBM

Attachments

- A. Letters of Support
- B. Outreach List

c: Honorable Antonio R. Villaraigosa, Mayor
Gaye Williams, Chief of Staff
Romel Pascual, Deputy Mayor, Environment
Board of Public Works Commissioners
Miguel Santana, CAO
Gerry Miller, CLA
BOS Executive Team



June 20, 2011

Executive Officers

Jacob Lipa, Chairman
Psonas
Brad Cox, Immediate Past Chairman
Trammell Crow Company
Alan Rothenberg, Vice Chairman
1st Century Bank
Richard Ziman, Vice Chairman, Chairman's Circle
American Value Partners
Mary Leslie, President
Los Angeles Business Council

Honorable Jan Perry
President pro Tempore, LA City Council
Chair, Energy and Environment Committee
200 N. Spring Street, Room 420
Los Angeles, CA 90012

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Kevin Dow, Turner Construction Co.
Tom Flintoft, Kindel Gagan
Ken Gillett, Macerich
John Goodwin, Westfield Group
Ron Griffith, Century Housing Corporation
Arno Harris, Recurrent Energy
Daniel Howard, Lodgen, Lacher, Goldtich, Sardi
Saunders & Howard
Deborah Kallick, Cedars-Sinai Health System
John Klein, Equinox
Joanne Kozberg, California Strategies
James Krug, Falcon Waterfree Technologies
Janet Lamkin, Bank of America
Antonio Manning, J.P. Morgan Chase
Mike Massey, National ITC Corporation
Gregory P. Medeiros, Centennial Founders, LLC
Guy Mehula, Parsons
Andy Meyers, Shangri-La
George Mihlsten, Latham & Watkins
Jerry Porter, CresaPartners
Commissioner Joe Ramalio, LA Dept. of Water & Power
Kevin Ratner, Forest City
Daymond Rice, Vons
Michael Rosenfeld, Next Century Associates, LLC
David C. Sears, J.P. Morgan Investment Mgmt., Inc.
Carmel Sella, Wells Fargo Bank
Sarah Shaw, JMB Realty Corporation
Patti Shwayder, AIMCO
John Semcken, III, Majestic Realty Co.
Howard Sunkin, Los Angeles Dodgers
Lori Tierney, Unisource Solutions
Steve Velkel, SNR Denton US LLP
Greg Wilkin, MacFarlane Partners
Nadine Watt, Watt Companies
Mike Whalley, SunPower

Re: Clean Water (Wastewater) Program Rate Proposal, CF 10-1947

Dear Councilwoman Perry,

The Los Angeles Business Council (LABC) has had an opportunity to review the proposed Clean Water Program rate proposal and discuss the issue with representatives from the Bureau of Sanitation. We would like to inform you of our support for this proposal.

The members of the LABC recognize the need for a well-functioning wastewater collection and treatment system to help drive a strong economy. This investment that will be funded from the future rates will help ensure that the sewer connection moratoriums, which were a barrier to businesses in the past, will not return. We also appreciate the Bureau providing a ten-year proposal so we can see the long-term investment in the infrastructure, rather than having it revealed in a piecemeal fashion. This will assist our members in planning for the future.

Thank you.

Sincerely,

Mary Leslie

President, LABC

ATTACHMENT A

Cc: Honorable Tony Cardenas, LA City Councilman
Honorable Richard Alarcon, LA City Councilman
Honorable Paul Koretz, LA City Councilman
Honorable Paul Krekorian, LA City Councilman
Enrique C. Zaldivar, Director, Bureau of Sanitation, City of Los Angeles
Adel H. Hagekhalil, Assistant Director, Bureau of Sanitation, City of Los Angeles



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June 28, 2011

Honorable Jan Perry
Chair, Energy and Environment Committee
200 N. Spring Street, Room 420
Los Angeles, CA 90012

Re: Clean Water (Wastewater) Program Rate Proposal, CF 10-1947

Dear Councilwoman Perry:

On behalf of the LAX Coastal Area Chamber of Commerce, representing over 550 businesses and over 25,000 area jobs, I am writing to show our support for the Clean Water (Wastewater) Program Rate Proposal, CF 10-1947. This program is vital for the creation of a well-functioning wastewater collection and treatment system, which is long overdue.

This investment, which will be funded from the future rates, will help ensure that the sewer connection moratoriums, which served as a barrier to businesses in the past, will not return. The ten year proposal is a long-term investment in the infrastructure of our City and not a piece-meal, short-term plan.

We must continue to invest in our aging infrastructure. This program is a positive step towards keeping our communities/beaches protected, creating more green jobs and better serving our Angelenos.

Sincerely,

A handwritten signature in black ink that reads "Kathryn Woodley".

Kathryn Woodley
Chairman of the Board

Cc: C. Zaldivar, Director, Bureau of Sanitation
Adel H. Hagekhalil, Assistant Director, Bureau of Sanitation





**RAMPART VILLAGE
NEIGHBORHOOD COUNCIL**

RVNC Office at St. Anne's
Suite #236
155 N. Occidental Blvd., Los Angeles, CA 90026
(Cross streets: Beverly Blvd. and Temple St.)
TELEPHONE: (213) 785-2001
FAX: (213) 785-2001
www.rvnc.org
www.EmpowerLA.org

RAMPART VILLAGE NEIGHBORHOOD COUNCIL

July 19, 2011

Honorable Jan Perry
Chair, Energy and Environment Committee
200 N. Spring Street, Room 420
Los Angeles, CA 90012

Clean Water (Wastewater) Program Rate Proposal, CF 10-1947

The Bureau of Sanitation recently made a presentation to the Rampart Village Neighborhood Council on the proposed Clean Water Program rate proposal. We would like to inform you of our support for this proposal.

The members of the RVNC recognize the need for a well-functioning wastewater collection and treatment system to help protect public health and the environment and drive a strong economy. This investment that will be funded from the future rates will help ensure that the sewer overflows that were too common ten years ago will not return. We also appreciate the Bureau providing a ten-year proposal so we can see the long-term investment in the infrastructure, rather than having it revealed in a piecemeal fashion. This will assist our members in planning for the future. We understand that having adopted rate increases for a longer period of time allows the annual increases to be smaller.

Julie Pasos

RVNC Executive Secretary

C: Enrique C. Zaldivar
Bureau of Sanitation
1149 S. Broadway, Suite 900
Los Angeles, CA 90015

Attachment B - Summary of Public Outreach

Already briefed (May 4-July 27)	Scheduled Meetings	Date
Baldwin Neighborhood Homeowners' Association	Central Alameda	August 13
Bel Air Beverly Crest NC	Granada Hills North	August 29
Building Owners and Managers Association of Greater LA	Greater Wilshire	Sept 14
Canoga Park NC	Historic Cultural NC	Sept TBD
Central Hollywood NC	Macarthur Park	Aug TBD
Central City Association of LA	Pico NC	August 10
Central San Pedro NC	Pacific Palisades NC	August 11
Century City Chamber of Commerce	South Robertson NC	August 18
Coastal San Pedro NC	West Adams NC	August 15
Community & Neighbors for Ninth District Unity		
Community Advisory Council -9th District		
East Hollywood NC		
Glassell Park NC		
Greater Cypress Park NC		
Greater Griffith Park NC		
Green LA Coalition		
Harbor Alliance of NCs		
Heal the Bay		
Historic Highland Park NC		
Hollywood United NC		
Integrated Resources Plan for Water Annual Stakeholders Meeting	Contacted	
LA Business Council Legislative Committee	All groups provided by Council offices	
LA Chamber of Commerce staff	All NCs through DONE weekly e-blast	
LA Chamber of Commerce Land Use Committee	All NCs through direct e-mail	
Lake Balboa NC		
Midtown North Hollywood NC		
North Hills NC		
Northridge East NC		
Northridge South NC		
Northridge West NC		
Northwest San Pedro NC		
Palms NC		
Rampart Village NC		
Significant Industrial Users Workshop		
Silver Lake NC		
United Neighborhoods of Historic Arlington Heights, West Adams and Jefferson Park		
Valley Industry & Commerce Association (VICA) Environment Committee		
VICA Government Affairs Committee		
Venice NC		
West Hills NC		
West Los Angeles NC		
Westchester/Playa NC		
Wilmington NC		