



CITY COUNCIL AGENDA ITEM

To: Mayor Graham and City Council
From: Dennis Sullivan, Director of Public Works
Walter Denton, City Administrator
Date: May 4, 2009
Subject: ORDINANCE – Wastewater Rates

List of committees that have reviewed: Public Works

Background: The Wastewater Enterprise Fund has not generated sufficient revenue over the past 10 years to provide funds needed to be self-insured, maintain an operating reserve, and build a capital improvement reserve for future major capital expenditures. Additionally, needed maintenance and repair has been delayed for at least the past six years due to insufficient funds for those requirements. To summarize, there are no reserve funds, and the fund will end its FY2009 operations in the hole. (See Attachment #1) Additionally at this point, there is a unique opportunity, the American Recovery and Reinvestment Act (ARRA) of 2009, commonly called the "Economic Stimulus Package" is available to fund some of the needed repair and upgrade. IEPA will take the Illinois stimulus funding to be dedicated to water and wastewater initiatives and place that money in its existing revolving loan program. They will provide money to water and wastewater authorities as 0% interest loans. Qualification for stimulus funding under IEPA-guidance requires public utilities to show that they have a sufficient rate structure to support pay back of the loan. Therefore, O'Fallon needs to increase its rates to ensure debt service of any ARRA loan can be satisfied.

Legal considerations, if any: Lack of needed maintenance, repair, and upgrade as well as generation of capital for future environmental mandates will put our wastewater district in violation of state and federal regulations subjecting the district to fines and penalties now and in the future.

Budget impact: The attached ordinance (Attachment #2) is a start at correcting the situation explained above and at the April 23rd Special Wastewater Informational Meeting. O'Fallon is seeking \$9.54M of the stimulus funding to provide a new clarifier and headworks at the City's Wastewater Treatment Plant (WWTP) as well as sanitary sewer trunk line repair and sewer main manhole repair. The proposed rate increase will generate an additional \$1.1M in 12 months (Attachment #3). This additional funding will "generally" be programmed as follows:

Table with 2 columns: Item, Amount. Rows include Debt Service for ARRA Loan, Operations and Maintenance Support, Sewer Repair Program, Sewer Lateral Program, Ejector Pump Program, Capital Reserve, and Total (\$1,119,000).

“Generally” is used above as there will be years that the funding other than debt service for the ARRA loan will vary, dependent upon demand. ARRA debt service is fairly straight forward. In response to questions as to what the other funding will be used for the following is provided:

Operations and Maintenance Support – This category of funding supports basically day to day activities – salaries, benefits, supplies, utilities, maintenance costs, minor repairs, etc. Requirements along with sewer repair that drove the fund into the hole this past fiscal year.

Sewer Repair Program – As stated above, with exception of the Oak Street project last year very little repair or replacement of the O’Fallon system lines and manholes has occurred over the past 6 years. This sewer repair money will go to correct this past deficiency and hopefully cut the amount of inflow & infiltration (I&I) into the sanitary lines that we have to treat at the Wastewater Treatment Plant (WWTP).

Sewer Lateral Program – Staff currently tries to coerce sanitary sewer users to keep their laterals in good repair and not become leakers of I&I into the sanitary system; however, there is basically not a lot of leverage to make account holders do so. 80 to 90% of I&I comes from private property in the laterals or connections to sanitary mains. Collapsed and deteriorating sewer laterals back sewage up into houses as well as provide excellent entry points for I&I. The Sewer Lateral Program will take part of the funding generated by the proposed rate increase and establish in effect an insurance program that will address not only the sewer laterals that our employees find dumping I&I into the sanitary sewer system, but will provide for replacement of laterals that have collapsed or become unusable and are causing sewage to back up into private residences. As the cost to replace laterals range from \$3,000 to \$5,000 dependent upon depth, relation to structures and roadways, residents served by the sanitary district should find such a program very valuable when their laterals fail.

Ejector Pump Program – A number of sewer mains in O’Fallon do not have sufficient vertical separation from occupied floors and the sewer main that the sewer lateral ties to by today’s industry standards. Adjustment of the mains is costly, if not prohibitive in some areas. The current Ejector Pump Program was set up to address this situation. However, many residents are reluctant to use the program as currently the maximum contribution by the City is \$3,000. Staff proposes to raise that limit to \$6,000 as the cost of most ejector installations range from \$6,500 to \$8,000.

Capital Reserve – In 1997, the O’Fallon WWTP expansion project was touted to give the City a plant that would carry it through the next 15 years (2012?). Staff has already started planning for expansion and rehabilitation of the plant with an eye on future USEPA and IEPA regulatory issues. The plan calls for a \$30M (2008 dollars) overhaul to be carried out over 10 years. The clarifier and headworks discussed above are part of that plan. Therefore, funding needs to be set aside, starting now, to position the City for future IEPA loans to carry out the overhaul.

The impact to the individual rate payer by amount of sewerage use is shown on Attachment #4.

Staff recommendation: Staff recommends that the rate change proposal as outlined in the ordinance amendment be passed.