



# ADMINISTRATIVE REPORT

Date: September 5, 2013

Agenda Item No: 5

Meeting Date: September 11, 2013

**To: VENTURA WATER RATE ADVISORY COMMITTEE**

**From: SHANA EPSTEIN, VENTURA WATER GENERAL MANAGER**

**Subject: General Fund and Pavement Obligations**

## **RECOMMENDATIONS**

It is recommended that the Committee receive and file the information provided on upcoming General Fund Obligation and a proposed Pavement Obligation.

## **SUMMARY**

The Water and Wastewater Utilities have separate expenses and revenues from the General Fund, which are referred to as enterprise funds. All of the expenses attributable to these utilities are either expenditures in the enterprise funds or revenue transferred to the General Fund to support the enterprise funds' burden upon the General Fund. The Public Right of Way Fee is a current revenue transfer from the utilities to the General Fund and the Pavement Obligation is a proposed new expense to ensure the utilities are bearing their fair share of the costs for repairing roads after completing pipeline replacement projects.

## **DISCUSSION**

The purpose of discussing these two expenditures for the Water and Wastewater Enterprise Funds is to clearly define the City's utilities' obligations to be self-supporting and to understand the possible impacts that these obligations may have on the revenue requirements for each utility.

### ***Public Right of Way Fee***

Investor-owned utility companies (such as Southern California Edison, the Gas Company, etc.) pay a franchise fee to the City for use of City rights-of-way for utilities. Ventura Water also pays a similar fee referred to as a Public Right-of-Way Fee for utilities located within the City rights-of-way. Currently, the municipal code mandates 1.5% of the water and wastewater gross revenue is contributed to the General Fund due to the use of the City's right-of-ways. The City is recommending raising Ventura Water's Public Right of Way fee to 2%. This is at the lower end of the franchise fees charged to other utilities where franchise fees range from 2% to 5% of gross revenues. If approved by the City Council, the public right-of-way fee would increase from \$614,000 to \$819,000 based upon current revenue projections for FY 13/14.

### ***Pavement Obligation***

Due to comments made by City Council, the City is considering modifying the utility trench standard detail to require more pavement to be repaired after a pipeline is installed longitudinally in a street. Currently, the City requires the utility company to repair pavement equivalent to the trench width plus 1-foot on each side (or approximately 5-feet wide for an 8-inch pipeline). The City is proposing to require all utilities excavating in streets for pipelines that are beyond the franchise excavation limits to pave or provide funding for the City to pave 12 feet to 24 feet wide by the length of the utility cut (this is a traffic lane width to two lane widths depending on where the trench is located and how wide it is). This obligation could add as much as \$42 to \$84 per foot of length to each water and wastewater pipeline project to cover the cost for paving. Depending upon the situation, the actual paving of the trench could either occur with completion of the utility project, or funds for the paving work could be transferred to the street budget for the work to be done with the larger paving of that street.

The objective of the preliminary proposal is that water and wastewater pipe replacements will only pay their fair share for pavement restoration costs. These are costs above and beyond what the franchise fee covers. If a pipeline replacement is performed in a street that is in excellent condition, the utility will be responsible for paying a higher portion of the cost. Conversely, if the pavement is in poor condition, the utility is only responsible for a small portion of the pavement restoration cost. The streets Pavement Condition Index (PCI) will be used to determine the amount or portion of the cost that will be discounted. For example, if a street has a PCI rating of 80 and a trench cut requires that one lane be repaved, the utility will be responsible for paying 80% of the \$42 per foot for pavement restoration. If a street is in poor condition with a PCI of 40, the utility will be responsible for paying only 40% of the \$42 per foot.

A 20% "price cap" is also recommended. In other words, while the additional pavement restoration work that is required to repave one to two lanes, could add up to 33% cost to a utility replacement, the most that a utility will be obligated to pay for is 20%. This is a similar concept that is used in the building industry for ADA improvements, in which a business that renovates a building is required to meet the latest ADA standards, but is not required to spend more than 20% of renovation costs towards such improvements. The

price cap would not apply to a street that is within a moratorium (paved within the last 5 years or slurry sealed within the past 2 years).

The goal presented last year was to replace 2 miles of water lines per year through our capital improvement program at an estimated cost of \$2.7 million per year. If the City replaces lines at the current rate the additional pavement obligation costs could cost up to an additional \$900,000 annually. However, with the 20% price cap for pavement restoration costs, the maximum additional cost would be closer to \$540,000 annually. When considering that the average PCI value for City streets is currently 69, and most waterline replacements will require only a 12-foot wide restoration, we anticipate closer to a \$300,000 annual increase in cost for waterline replacement projects, which is closer to an overall increase of 11%.

In regards to wastewater pipeline projects, the additional cost would be approximately \$650,000 per year in paving costs assuming an average of 1.5 miles per year replaced and assuming 24-foot wide length. The original cost estimations for 1.5 miles of wastewater pipeline replacement per year was \$2.8 million. As most wastewater collection pipelines are in the middle of the street and the trench cut will affect two lanes (not just one), it is more likely that the 24-foot width would need to be paved. When considering the average PCI value of 69 and a 20% price cap, the maximum additional cost would be closer to \$560,000.

Another way of addressing this obligation would be to reduce the amount of pipeline replaced. If that was the case, water pipeline replacement would be reduced from 2 miles per year to 1.4 miles per year. If wastewater pipeline replacement followed suit the numbers of miles replaced would be reduced from 1.5 miles to 1.1 miles per year.

Another option to reduce costs would be to use trenchless technologies whenever possible. However, trenchless technology is best used where few utilities are underground nearby and few service connections; therefore, the feasibility to use a trenchless technology to avoid street repaving will be limited.

As stated, it is proposed that all utility projects requiring trenching would be subject to the same obligation. While more research and outreach is needed to fully understand the possible impacts to other utilities, this standardized approach would ensure that street surfaces are properly maintained.

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For



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