



# City of Sierra Madre Agenda Report

*Joe Mosca, Mayor*  
*John Buchanan, Mayor Pro Tem*  
*MaryAnn MacGillivray, Council Member*  
*Josh Moran, Council Member*  
*Nancy Walsh, Council Member*

*Nancy Shollenberger, City Clerk*  
*George Enyedi, City Treasurer*

TO: Honorable Mayor Mosca and Members of the City Council

FROM: Elaine I. Aguilar, City Manager  
Karin Schnaider, Director of Administrative Services  
Bruce Inman, Director of Public Works

DATE: October 19, 2010

SUBJECT: **DISCUSSION REGARDING SIERRA MADRE WATER UTILITY  
OPERATIONS AND WATER RATE INCREASE**

---

## SUMMARY

Since May 2010, the City Council has received a number of reports, reviewed detailed analyses, and initiated a public information program to familiarize Sierra Madre water customers with the operations and financial condition of the City's water department and to obtain input and feedback from the community.

This staff report does not go into the details presented in previous staff reports; instead copies of the water related staff reports have been included as attachments. However, staff is prepared to present any of the information included in the previous staff reports, should the Council desire.

At the July 27<sup>th</sup> meeting, the City Council approved a two month long education and public outreach program aimed at:

- Providing information to the Sierra Madre Community on the City's water utility
- Responding to questions about the water utility operations, including, but not limited to questions about debt, operational expenditures, Prop 218, etc.
- Explaining the reasons the City initiated a water rate increase process
- Engaging the community in a dialog about the City's water utility, water rate increases and the utility's future.

Staff was directed to return at the end of the two month outreach period. This staff report provides a summary of the input received from five outreach events.

FOR CITY COUNCIL AGENDA \_\_\_\_\_

AGENDA ITEM # \_\_\_\_\_

As directed by the Council, tonight's special meeting was intended to provide an additional opportunity to receive input, answer questions, and begin discussion of possible next steps.

### **ANALYSIS**

There were five outreach events held. The events were:

- August 14<sup>th</sup> Walk & Talk
- August 17<sup>th</sup> Community Water Forum (was also broadcast on SMTV3)
- September 1<sup>st</sup> Community Water Forum
- September 13<sup>th</sup> Community Water Forum
- September 29<sup>th</sup> Walk & Talk

In addition, the following outreach tools were used:

- Water Fact Sheet inserted in water bills
- Two postcards mailed to all postal customers (a postcard notifying the public of the outreach events, and a postcard notifying the public of tonight's special water meeting.)
- Information on the City's Website
- E-mails to subscribers of City's e-mail notification system
- Surveys were available at all outreach events
- PSA on SMTV3
- Staff presentations to community organizations, such as Kiwanis, Senior Lunch program, and Coordinating Committee.

### **Feedback**

Staff estimates that a total of 200 individuals attended the five events. The first Walk & Talk on August 14<sup>th</sup> had the highest turnout, with almost 100 attendees. The remaining 100 individuals were spread out over the other four events.

Overall, the vast majority of attendees rated the events as "excellent" and "very useful." There were definite "themes" that occurred at each of the events. Below is a summary of the main themes; "majority" reflects that these comments were heard frequently, and from a majority of individuals in attendance; "minority" reflects that the comment was stated by a few individuals in attendance (less than 3 individuals), and/or was stated infrequently (not stated at every meeting).

To summarize the main themes:

#### Majority

- Comprehension of the necessity for a water rate increase, however "the 15% increase" the first year was "too high."

## WATER DISCUSSION

October 19, 2010

Page 3 of 6

---

- Comprehension that a rate increase was necessary, however the increase should be more evenly spread-out over the 5 year period, for example, 5% per year
- Water rates should be increased; there hasn't been a water rate increase in years; all other utilities have increased in cost
- The events were useful, informative, interesting, professional and well done.
- The City is doing a good job of providing information, all available media/outlets are being used
- If there was a plan to increase water rates gradually over the past five years, why weren't the rates increased?
- Appreciation of the city's outreach efforts and the information; there was a lot of misinformation
- Preference that the City maintain control over its water system; local control is best

### Minority

- Comprehension of the necessity for a water rate increase, and the City should proceed with the rate increase originally proposed in July
- Form an assessment district to raise funds for debt repayment and capital, instead of a water rate increase (preferred because of the income tax deduction) Would result in lower water rate increase to cover ongoing, day-to-day operations
- More printed materials/handouts would have been helpful.
- It would be helpful to have more information regarding the water rate tiers
- The City should host a picnic to draw residents out for an information session
- Sell the water utility to a private water company; city should not be in the "water business"
- Eliminate tiered meter rates
- Cost differential between the water rate tiers should be more significant; could result in a lower 1<sup>st</sup> tier cost and would also encourage water conservation; people who use more water should pay more
- Concerns that water conservation/reduced sales would precipitate another rate increase
- Comprehension that a rate increase was necessary; preference that a lower increase be instituted in year 1, progressing to higher percentage increases in out years, i.e.: Year 1= 3%, Year 2= 5%, Year 3= 7%..... this would permit adjustment to household budgets
- Water fund should go bankrupt, so the debt will be erased
- There should not be any water rate increase

There were questions regarding the Water Fund debt at each of the events. After questions were answered, the majority of individuals at the events did not continue to perceive the debt as excessive or with a negative connotation. However, there were a few individuals who expressed major concern about the water utility debt.

Because debt was the subject of frequent questions, general information about the water department debt is included in this staff report.

### **Debt**

Beginning in 2002-2003, the City's Water Department took on the most comprehensive Capital Infrastructure upgrade in more than 50 years. This project included the replacement of two reservoirs, rehabilitation of the pumping station and wells, costing the City almost \$16 million. Outside of the original scope of these projects arose an emergency project for the City to install a water filtration system at a cost of \$3.5 million. The City utilized a combination of funding sources to meet the costs of these infrastructure improvements, which includes: Federal Grants; a SGVMWD Grant and a SGVMWD Loan; bond proceeds from the 1998 Water Revenue Refunding Bonds and 2003 Water Parity Bonds; as well as City Water Fund reserves.

As mentioned above, the City's Water Fund currently has two bonds and one SGVMWD loan outstanding. The 1998 Refunding Bonds are refinanced debt. This is similar to an individual who refinances their mortgage and takes the equity out under a new 30 year mortgage. The terms are principal and interest (5%) until 2019. In 2003, when it became apparent that the City had Federal Funds available to do Capital Improvements to the water infrastructure, the City issued new debt; because for each dollar provided by a Federal Grant, the City had a dollar match requirement. The terms of the debt are interest only (5%) until 2019 and principal and interest (5%) 2020-2034. To receive the interest only terms, the bank required a revenue covenant of 120% operational income. The covenant is security to the "second mortgage" that the Water Fund would remain financially healthy throughout the terms of the debt and that the City Water Fund would meet its obligations.

The City may only withdraw the bond proceeds after demonstrating to the bond trustee that the City (water utility) has eligible expenditures. In the City's Water Fund, eligible expenses are limited to Water Capital Infrastructure as mentioned above. The City submits a claim to the bond trustee which includes invoices and payment information and the City is reimbursed for those expenditures.

The third outstanding debt in the Water Fund is an interest free 10 year term loan from the San Gabriel Valley Municipal Water District (SGVMWD) for \$1,456,875. The FY 2009-11 Budget documents reflect the first payment was due July 1, 2010; however, the SGVMWD provided a one year extension on the loan postponing the first payment until July 1, 2011.

Below is an excerpt from the FY 2009-11 Biennial Budget Debt Section that provides the current debt obligations. (Please note this is also included in each annual financial audit)

WATER DISCUSSION

October 19, 2010

Page 5 of 6

WATER REVENUE PARITY BONDS - \$6,750,000

DUE ANNUALLY NOVEMBER 1

RATE 5.00%

	PRINCIPAL DUE	SERIAL REDEMPTION INTEREST	TOTAL DEBT SERVICE
Amount Paid 2003-2009	-	1,913,529	1,913,529
Outstanding 07/01/2009	6,750,000	6,261,958	13,011,958
Amount Paid 2009-2010	0	339,345	339,345
Outstanding 06/30/2010	6,750,000	5,922,613	12,672,613
Amount Due 2010-2011	0	339,345	339,345
Outstanding 06/30/2011	6,750,000	5,583,268	12,333,268

1998 WATER REVENUE REFUNDING BONDS - \$6,740,000

DUE ANNUALLY NOVEMBER 1

RATE 5.00%

	PRINCIPAL DUE	SERIAL REDEMPTION INTEREST	TOTAL DEBT SERVICE
Amount Paid 1998-2009	2,730,000	2,920,902	5,650,902
Outstanding 07/01/2009	4,010,000	1,082,500	5,092,500
Amount Paid 2009-2010	300,000	207,550	507,550
Outstanding 06/30/2010	3,710,000	874,950	4,584,950
Amount Due 2010-2011	335,000	176,125	511,125
Outstanding 06/30/2011	3,375,000	698,825	4,073,825

San Gabriel Valley Municipal Water District (10 year Interest Free Loan)

2009-2010

Payment Due July 1

RATE 0.00%

	Payment Amount	Payment applied to Interest	Principal
Amount Paid 2008-09	-	-	-
Outstanding 07/01/2009	1,456,875	-	1,456,875
Amount Paid 2009-2010	-	-	-
Outstanding 06/30/2010	1,456,875	-	1,456,875
Amount Due 2010-2011	-	-	-
Outstanding 06/30/2011	1,456,875	-	1,456,875

Conclusion

This report provides a summary of the input received from various community outreach events. At tonight's meeting, the Council will receive additional input from the public. Based upon all of the input received, the Council could provide staff with policy direction regarding possible next steps.

**PUBLIC NOTICE PROCESS**

This item has been noticed through the regular agenda notification process. In addition e-mails were forwarded to the subscribers of the City's e-mail notification system; press releases were forwarded to local news media, and postcards were mailed to every Sierra Madre postal customer. Copies of this report were made available at the City Hall public counter and the Sierra Madre Public Library.

**STAFF RECOMMENDATION**

Staff recommends that the City Council provide staff with direction.

Attachments:        May 11, 2010 Staff Report  
                              June 22, 2010 Staff Report  
                              July 13, 2010 Staff Report  
                              July 27, 2010 Staff Report