City of Montebello

Department of Public Works
ADMINISTRATION DIVISION
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To: Prospective Responders/Bidders

From: Danilo Batson
Assistant City Manager

Date: November 10, 2016

Subject: RFP No. 17-4 – The Purchase of the City of Montebello Water System and Related Assets (ADDENDUM #3)

I. RESPONSES TO INQUIRIES FROM THE PRE-PROPOSAL CONFERENCE

1. Can the City make the Water Rate Study Presentation available to bidders/proposers?

   ANSWER: Yes, as part of this addendum the City has uploaded the presentation on the website so that bidders/proposers can download and review the presentation.

Bidder's Certificate: (This Certificate must be signed and returned together with the Bid Proposal, otherwise the submitted bid shall be considered incomplete.)

I ACKNOWLEDGE RECEIPT OF THIS ADDENDUM #3 AND I ACCEPT THE AFOREMENTIONED CONDITIONS.

DATE: _____

COMPANY: _____

SIGNATURE: _____

TITLE: _____

City of Montebello

Water Rate Study Overview

City Council Study Session

October 12, 2016

Background

- City increased rates in February 2004
- Next rate increase in August 2013 (50%) with subsequent rate increase in July 2014 (25%)
- About 9 years with no rate increases to pay for increased water costs and capital improvements
- No capital improvements means increased repairs
- General Fund currently subsidizing Water Enterprise (in effect, general citizens paying for costs)
- 1,616 meter connections:
  - 1,498 residential, commercial, industrial, other
  - 118 fire meters

Background (cont'd)

- Per the City Engineer, water system capital improvement plan addresses immediate capital improvements of about $14,400,000; and long-term capital improvements of about $32,500,000. Examples:
  - $6,000,000 for Veteran's Tract aging water main replacement
  - $4,300,000 for main-line valve replacement
- Other required improvements include booster station upgrades, improvements to Well No. 1, the City's only well (supplies southern portion of City)

Examples of Typical Condition of System

Examples of Typical Condition of System

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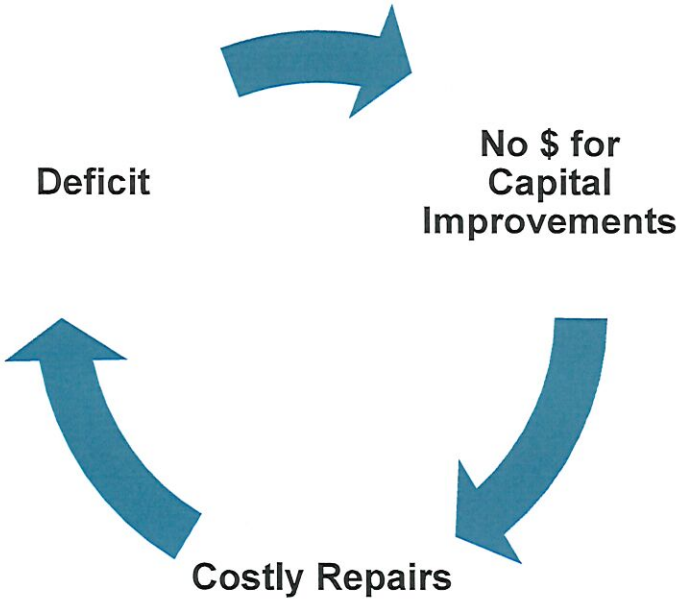
Examples of Typical Condition of System

Critical Issues

- Current rates and charges insufficient to cover costs of:
  - Operations
  - Maintenance
  - Capital improvements
- No capital improvements for 9 years with increased costs due to repairs

Critical Issues

- Costly repairs add to deficit:



- Previous positive fund balance which could have been used for capital improvements were used for operational deficit and were depleted in FY 2013-14 (in FY 2013-14 the General Fund transferred $300,000 to Water Fund and ending year balance was $13,834).

Comparison of Average Current Water Bills

City Water Purveyor	Estimated Bimonthly Bill [a]
Montebello Land and Water Company [b]	$86.87
City of Montebello	**$99.48**
San Gabriel Valley Water Company	$107.72
California Water Service Company	$121.93
South Montebello Irrigation District	$123.14

[a] Based on 22 units bimonthly.

[b] Ground water replenishment costs are lower than imported water costs. Montebello Land and Water Company's primary water source is ground water.

Municipal Golf Course

- Municipal golf course is a major customer of Water Fund
- Consumes 259 acre feet (AF) of water annually, nearly 25% of the total water consumed
- Recycled water at golf course anticipated to start in July 2017 (Year 2)
- Estimated to continue to consume 30% potable water and 70% recycled water: Approximately 181 AF recycled water; 78 AF of potable water
- Central Basin MWD will provide the recycled water (181 AF)
- San Gabriel Valley Water Company will provide the potable water (78 AF)
- Recycled water decreases cost of operations due to lower price per AF

Estimated Savings – Recycled Water Conversion

Annual Savings by Converting to Recycled Water

	Year 1	Year 2	Year 3	Year 4	Year 5
Fiscal Year [a]	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Total Cost of Potable Water (No Recycled Water)	$257,133	$262,276	$267,521	$272,872	$278,329
Total Cost of Recycled Water (70% Recycled water)	n/a	$102,729	$104,784	$106,872	$109,017
Estimated Savings by Converting to Recycled Water	**n/a**	**$159,547**	**$162,737**	**$165,992**	**$169,312**

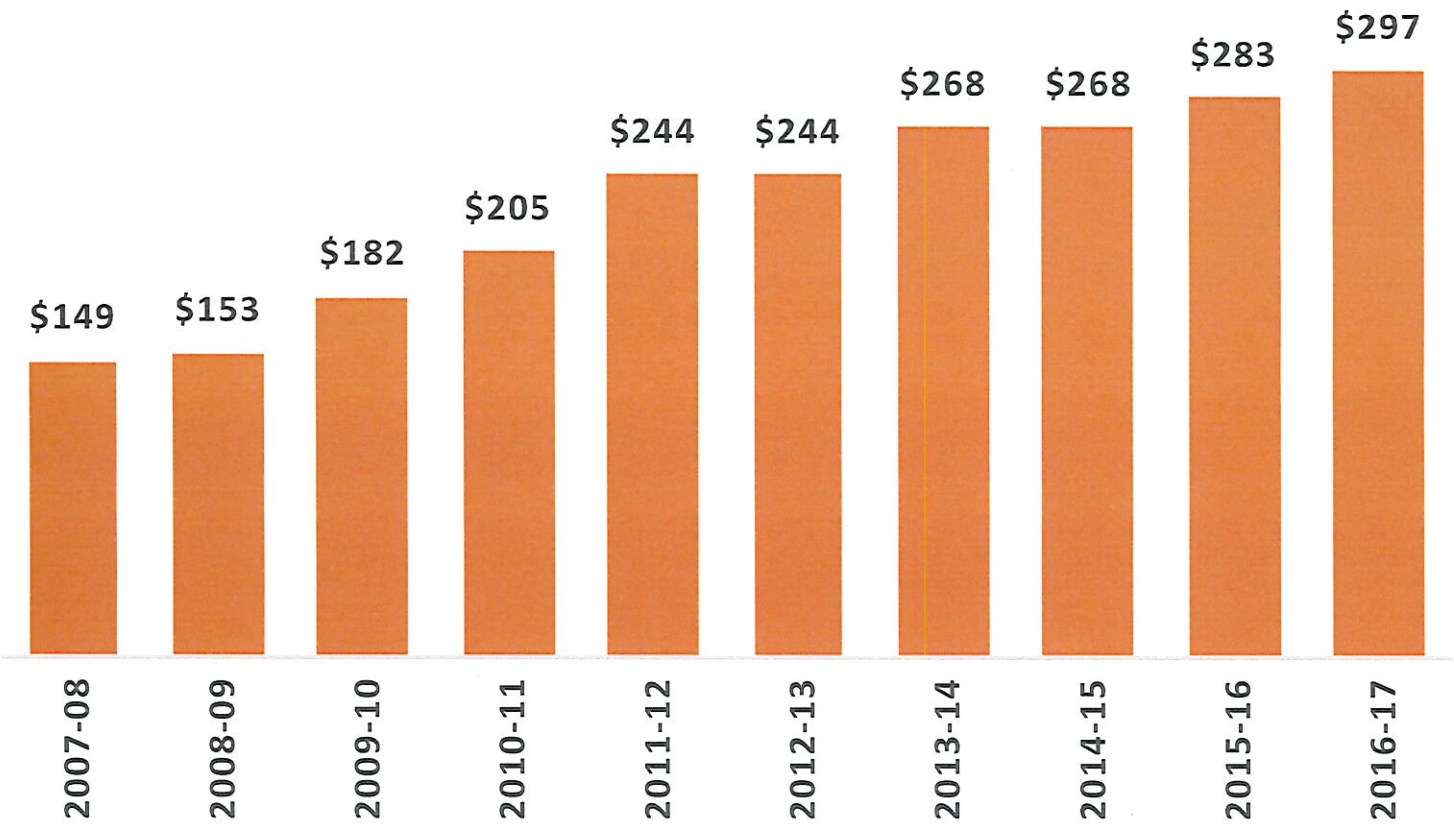
[a] A Fiscal Year is from July 1 to June 30.

Estimated Savings – San Gabriel Water

Annual Savings by Purchasing San Gabriel Valley Water

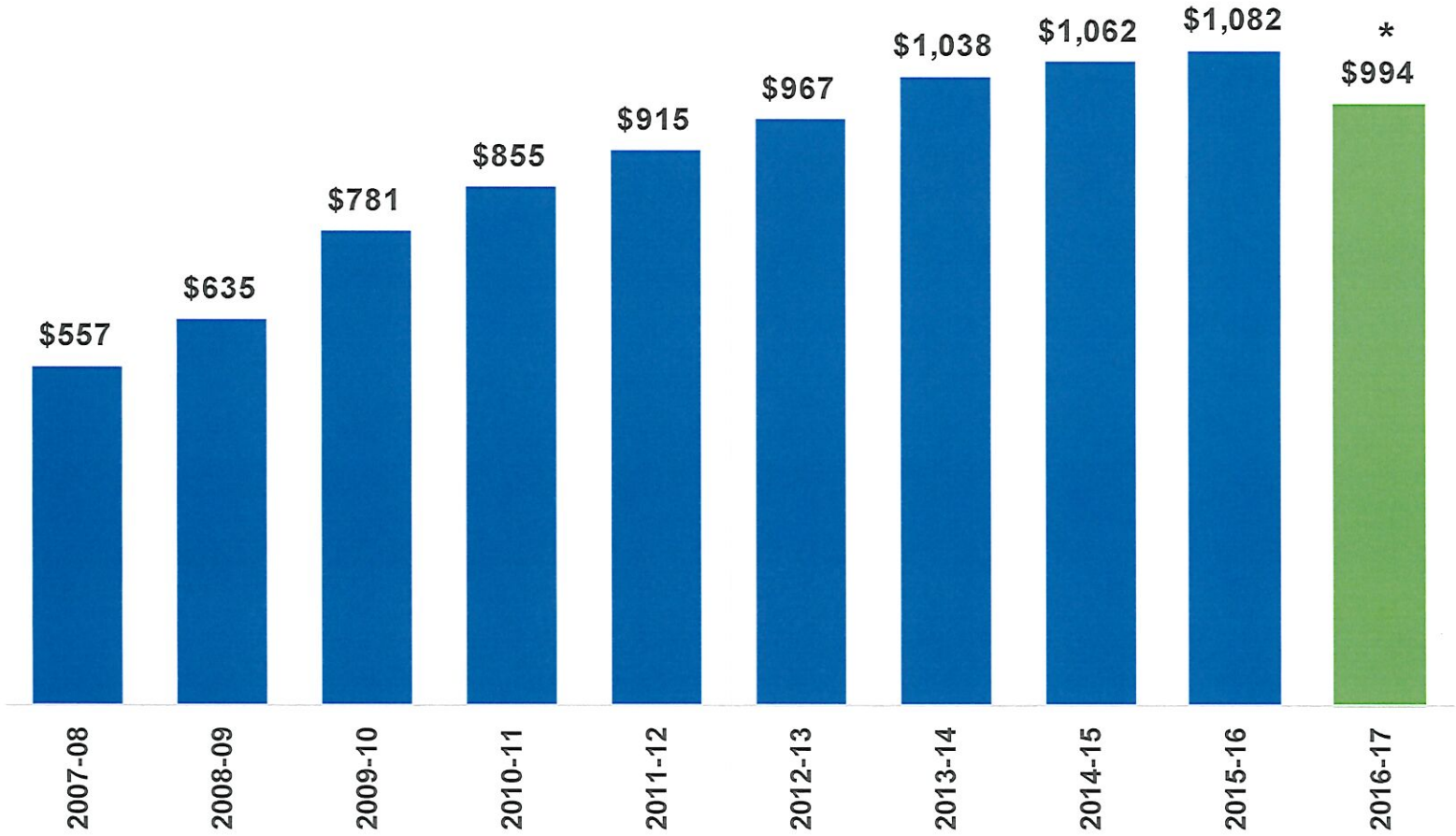
	Year 1	Year 2	Year 3	Year 4	Year 5
Fiscal Year	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Total Cost of Central Basin Water	$1,070,791	$888,215	$905,979	$924,099	$942,581
Total Cost of San Gabriel Water	$963,712	$799,393	$815,381	$831,689	$848,233
Estimated Savings by Purchasing SGVWC Water	**$107,079**	**$88,821**	**$90,598**	**$92,410**	**$94,258**

Cost of Water Replenishment per Acre-Foot *



*Water replenishment assessment charged by WRD for pumping groundwater.

Cost of Purchased Potable Water per Acre-Foot



*This is SGVWC's potable water charge, which is 90% of the CBMWD Tier 1 Charge for FY 2016-17 at $1,104 per acre-foot (90% x $1,104/AF = $994/AF).

Major Operating Expenses

- Purchased water
  - Starting 4/29/16, City switched to San Gabriel Valley Water Company (SGVWC) water in lieu of Central Basin Municipal Water District (CBMWD) water; SGVWC provides water to City @ 90% of the CBMWD charge; as shown previously, the FY 2016-17 estimated potable water costs are:
    - FY 2016-17 CBMWD total potable water cost: $1,070,791
    - FY 2016-17 SGVWC total potable water cost: $963,712
    - FY 2016-17 difference between CBMWD and SGVWC water: $107,079 (this is the City's savings for this fiscal year)
- Ground water (Water Replenishment District of Southern California, WRD)
  - $297 per AF in FY 2016-17, $283 per AF in FY 2015-16
  - FY 2016-17 estimated replenishment cost: $40,772
- Utility Expenses
  - Approximately $120,000 - $130,000 annually
- Water operator contract services and general maintenance and repair
  - SGVWC contract: approx. $473,000/year; repair and maint: approx. $300,000/year
- Administrative services
  - Approximately $90,000 annually

Current Financial Condition of the Water Fund

	Actual FY 2011-12	Actual FY 2012-13	Actual FY 2013-14	Actual FY 2014-15	Estimated FY 2015-16
Operating Revenues	$1,325,638	$1,250,518	$1,993,532	$2,448,434	$2,178,044
Operating Expenses	$1,689,061	$2,082,362	$2,364,394	$2,518,775	$2,616,095
Operating Income (Loss)	**($363,423)**	**($831,844)**	**($370,862)**	**($70,341)**	**($438,051)**
Non-Operating Revenues	$3,772	$1,556	-	-	-
Non-Operating Expenses	-	-	-	-	-
Net Income (Loss)	**($359,651)**	**($830,288)**	**($370,862)**	**($70,341)**	**($438,051)**
Transfers-In (from General Fund)	-	-	$300,000	-	
Change in Net Position	**($359,651)**	**($830,288)**	**($70,862)**	**($70,341)**	**($438,051)**
Net Position – Beginning of Year	$1,274,635	$914,984	$84,696	$13,384	($69,215)
Prior Period Adjustment	-	-	-	($12,708)	-
Net Position, Beginning of Year	-	-	-	$1,126	-
Net Position – End of Year	**$914,984**	**$84,696**	**$13,834**	**($69,215)**	**($507,266)**

Amount Owed by Water Fund to General Fund

Actual FY 2013-14		Actual FY 2014-15		Estimated FY 2015-16		Total
$300,000	+	$140,000	+	$438,051	=	$878,051

Revenue and Expense Scenarios

Scenario 1: 0% Rate Increase, No Funds Available for Capital Improvements [a]

% Increase	0.00%	0.00%	0.00%	0.00%	0.00%
Year	**1**	**2**	**3**	**4**	**5**
Fiscal Year	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Operating Revenues [b]	$2,207,262	$1,970,861	$1,970,861	$1,970,861	$1,970,861
Operating Expenses [c]	$2,337,803	$2,100,949	$2,132,647	$2,165,043	$2,198,154
Operating Income (Loss)	($130,541)	($130,088)	($161,786)	($194,182)	($227,293)
Transfers Out	-	-	-	-	-
Net Position – Beginning of Year	($507,266)	($637,807)	($767,895)	($929,681)	($1,123,863)
Net Position – End of Year	($637,807)	($767,895)	($929,681)	($1,123,863)	($1,351,156)

[a] Immediate capital improvements costs **$14,400,000**; long-term capital improvements costs **$32,500,000**.
[b] Lower revenues in Year 2 is due to the golf course converting to recycled water provided by Central Basin.
[c] Does not include extraordinary repair; lower operating expenses starting in Year 2 reflect the savings in purchased water from SGVWC and recycled water use at the golf course (recycled water starts July 2017).

Revenue and Expense Scenarios (cont'd)

Scenario 2: Rate Increases in Years 1 and 2 and No Rate Increases in Years 3 to 5, Minimal Funds for Capital Improvements [a]

% Increase	15.00%	15.00%	0.00%	0.00%	0.00%
Year	1	2	3	4	5
Fiscal Year	2016-17	2017-18	2018-19	2019-20	2020-21
Operating Revenues	$2,372,806	$2,606,464	$2,606,464	$2,606,464	$2,606,464
Operating Expenses [b]	$2,337,803	$2,100,949	$2,132,647	$2,165,043	$2,198,154
Operating Income (Loss)	$35,003	$505,514	$473,817	$441,421	$408,310
Transfers Out [c]	($35,003)	($505,514)	($337,534)	-	-
Net Position – Beginning of Year	($507,266)	($507,266)	($507,266)	($370,983)	$70,438
Net Position – End of Year	($507,266)	($507,266)	($370,983)	$70,438	$478,748

[a] Immediate capital improvements costs **$14,400,000**; long-term capital improvements costs **$32,500,000**.
[b] Does not include extraordinary repair; lower operating expenses starting in Year 2 reflect the savings in purchased water from SGVWC and recycled water use at the golf course (recycled water starts July 2017).
[c] Pay back General Fund and/or for capital improvements. Amount owed to General Fund to date (as of Year Ended June 30, 2016) is **$878,051**.

Revenue and Expense Scenarios (cont'd)

Scenario 3: Funds Available for Capital Improvements [a]

% Increase	50.00%	5.00%	5.00%	5.00%	5.00%
Year	**1**	**2**	**3**	**4**	**5**
Fiscal Year	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Operating Revenues	$2,759,077	$3,104,106	$3,259,311	$3,422,277	$3,593,391
Operating Expenses [b]	$2,337,803	$2,100,949	$2,132,647	$2,165,043	$2,198,154
Operating Income (Loss)	$421,274	$1,003,157	$1,126,665	$1,257,234	$1,395,237
Transfers Out [c]	($421,274)	($456,777)	-	-	-
Net Position – Beginning of Year	($507,266)	($507,266)	$39,114	$1,165,779	$2,423,013
Net Position – End of Year	($507,266)	$39,114	$1,165,779	$2,423,013	$3,818,250

[a] Immediate capital improvements costs **$14,400,000**; long-term capital improvements costs **$32,500,000**.
[b] Does not include extraordinary repair; lower operating expenses starting in Year 2 reflect the savings in purchased water from SGVWC and recycled water use at the golf course (recycled water starts July 2017).
[c] Pay back General Fund and/or for capital improvements. Amount owed to General Fund to date (as of Year Ended June 30, 2016) is **$878,051**.

Summary of Revenue and Expense Scenarios

Scenario	Rate Increase	Funds Available for Capital Improvements
1	None	None
2	15.00% each in Years 1 and 2, No Rate Increases in Years 3-5	Approximate breakeven point for O&M in Year 1; no significant funds for capital improvements
3	50.00% in Year 1, 5.00% each in Years 2 - 5	Allows for capital improvements (generates approximately $5,000,000 in five years in operating income); however, immediate need for capital improvements is $14,400,000 which does not include other unexpected repairs and General Fund needs to be paid back

- Note 1: Effective dates under all scenarios are the following: Year 1: 1/1/17 and Years 2 – 5: July 1 of each fiscal year.
- Note 2: Immediate capital improvements required costs **$14,400,000**; long-term capital improvements costs **$32,500,000**. Total cost of required capital improvements is **$46,900,000**.
- Note 3: Total amount owed by Water Fund to General Fund to date (as of June 30, 2016) is **$878,051**.

Sample Average Bimonthly Bills

Scenario 2

	Current	Year 1	Year 2	Year 3
% Increase		15.0%	15.0%	0.0%
Effective Date of Increase		1/1/17	7/1/17	8/1/17
22 units bimonthly	$99.48	$114.40	$131.56	$131.56

Scenario 3

	Current	Year 1	Year 2	Year 3
% Increase		50.0%	5.0%	5.0%
Effective Date of Increase		1/1/17	7/1/17	8/1/17
22 units bimonthly	$99.48	$149.22	$156.68	$164.52

Recommendations

- Increase rates
  - ✓ Reduces impact of increasing costs
  - ✓ Reduces impact of unexpected costs
  - ✓ Allow for operations and maintenance of facilities
  - ✓ Enhances system reliability
- Pay back General Fund (which is owed $878,051 as of June 30, 2016)
- Continue leasing unused groundwater rights to other water purveyors, which could bring in about $40,000/year to the General Fund
- Review adequacy of rates on an annual basis
- If possible, share costs of capital improvements with other City water purveyors

Possible Future Funding Sources

- I-Bank loan
  - When water enterprise generates enough revenues to pay back a loan as credit is needed
- Bureau of Reclamation
  - Meter replacement program
- Proposition 1
  - Funds have already been allocated
  - Drinking Water program prioritizes:
    - Projects that provide treatment for contamination or access to alternate water sources
    - Disadvantaged communities that have contaminated drinking water source

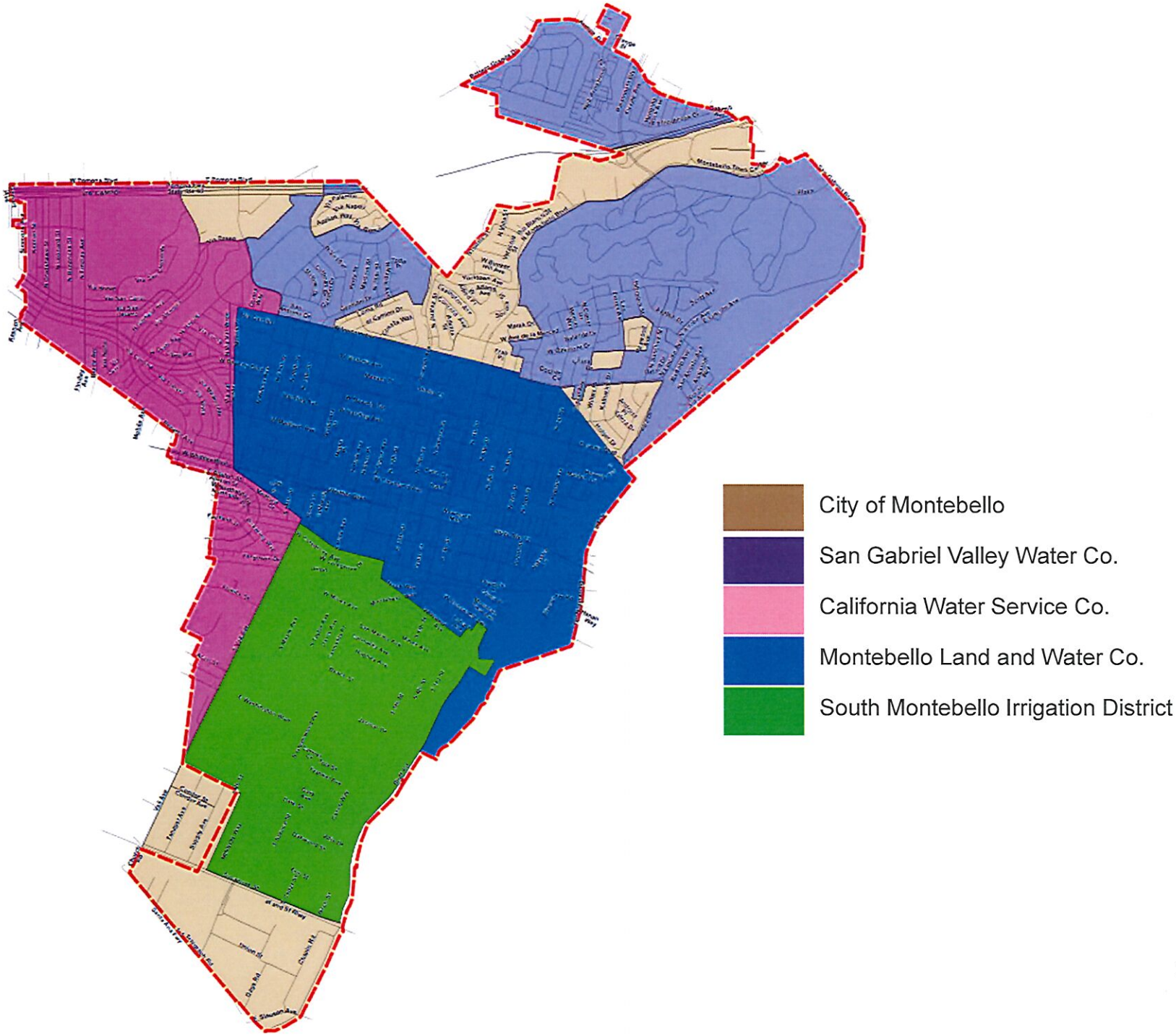
City of Montebello Water Enterprise

Thank You

Private Fire Meter Service Charges (Current)

Monthly Charges

Meter Size (inches)	Cal Water	SGVWC	MLWC	City of Montebello	SMID
2”	$14.85	$26.54	n/a	$53.10	$93.42
3”	$22.27	$39.81	n/a	$89.61	$169.85
4”	$29.69	$53.08	$121.75	$134.14	$229.30
6”	$44.54	$79.62	$156.55	$166.07	$331.21
8”	$59.38	$106.16	$191.34	$229.73	$543.54
10”	$74.23	$132.70	n/a	$349.24	$679.43


City of Montebello
San Gabriel Valley Water Co.
California Water Service Co.
Montebello Land and Water Co.
South Montebello Irrigation District

Meter Count and Water Use by Category

User Category	No. of Meters	Percent of Total Meters	Total Consumed FY 2015-16 (AF)
Residential	1,228	76.0%	362.5
Commercial	265	16.4%	425.6
Golf Course	1	0.1%	258.8
Industrial	1	0.1%	0.4
Public Authority	2	0.1%	0.7
Other Services	1	0.1%	0.9
Private Fire	118	7.3%	0.0
Total	**1,616**	**100.0%**	**1,048.8**