

January 3, 2011

CITY OF RIO VISTA



Re: 2nd RESPONSE TO SURVEY QUESTION

On behalf of the Council, we would like to thank all the citizens who have responded to the water and wastewater survey. In reply to your comments on the survey, we have compiled responses on water and sewer services.

1. Questions on Quality of Water (testing, discolored).

All cities are required by law to meet State and Federal drinking water health standards. Each year, Rio Vista's water system is tested for over 100 contaminants. Tests for arsenic, nitrates, benzene, and radium are conducted weekly and monthly. Rio Vista's water continues to test at levels lower than the State and Federal maximum standards. A Water Quality report for the City of Rio Vista, which is published, annually, is available at www.riovistacity.com.

The City's drinking water is safe to drink. At times, a discoloration of the water does occur. Discoloration of water is caused by a buildup of manganese, a mineral which when exposed to air discolors to a brownish tone. While the discoloration is a nuisance, manganese is not harmful. Through the scheduled arsenic filtration, manganese will also be filtered out of the water.

2. What is the status of the arsenic filtration (capital improvement project)?

Federal guidelines mandate that arsenic levels in our drinking water not exceed 10 parts per billion (ppb). The City has three Water Wells that exceed the Federal guidelines. An Arsenic Treatment Study was recently performed for the City which explored the effectiveness of different types of filtration systems, capital costs and associated maintenance costs to remove arsenic, thereby complying with Federal guidelines. The report estimated the cost for filtration of two well sites at \$3,000,000. Based on the report, the City will be moving forward with installing arsenic filtration systems at both locations. A total of \$2,000,000 will be accumulated from the new rates by June 30, 2011 with the remainder of the funds to be obtained by June 30, 2012.

A report on results of the Arsenic Treatment Study will be presented to the City Council on February 17, 2011.

3. Why didn't the City issue bonds to pay for Sewer Capital Improvement Projects?

The City evaluated a variety of options to ease the magnitude of increases to sewer rates including reductions in operating costs, ways to reduce or defer the number of capital projects projected, and *the issuance of bonds*. The City spoke with bond underwriters and the responses were not positive. Bonds could not be issued to the City because the Wastewater fund was carrying a \$4,000,000 deficit (money it borrowed to continue day-to-day operations), existing rates were insufficient to cover basic operational costs, and with the downward spiral of the economy, conventional lending institutions were unwilling to lend the City any funds in its weakened financial condition.

4. Is all money collected going to maintain Water and Sewer or is it being used for other things not related to water and sewer?

All of the revenues collected from the water billing are used to cover expenses to deliver potable water to the community. The revenues collected from the Northwest Sewer system rate payers are used to cover expenses to operate the Northwest Sewer system. The same applies for the revenues collected from the Beach Treatment Plant and collection system ratepayers. Expenses required to operate these utilities include operational costs such as electricity, chemicals, fuel, supplies, repairs, improvements, etc). None of the money is used to cover expenses of any other accounts.

5. What about this \$800,000 loan for Capital Improvement Projects?

With improbability of bonding, the initially proposed rates were established to fund 100% of the proposed capital improvement projects on a “Pay As You Go” basis. The need to collect sufficient funds to pay the debt, as it is incurred, resulted in higher rates. Recognizing the impact of the high rates, the City reduced the capital improvement project funds to be collected in the first three years by \$800,000 and entered into a verbal agreement for an \$800,000 line of credit from a local bank, for repayment over eight (8) years. This resulted in lowering of rates in the initial four years.

With a ballot initiative to repeal the imposed rates pending, the Bank placed the line of credit on hold. The City therefore, was unable to complete the intended projects on schedule.

6. Why did the rates increase so quickly and severely?

The City long needed to raise rates to cover expenses not being covered by old rates. Since Fiscal Year 2002-03, the City’s Wastewater Fund had been operating at a deficit. The City borrowed from other City Funds to pay the ever increasing costs for electricity, fuel, operating supplies, repairs, and improvements, etc. This continuous borrowing was causing other funds to operate in a deficit. If this were to have continued, the City faced an untenable financial situation.

The City, lacking funds to do so, deferred maintenance and repairs for many years. In addition, costs had been driven higher by additional regulatory requirements imposed for the protection of public health and safety.

Staff developed and presented to Council, several levels of rate structure. Each level had clearly identified associated risks. For example, delayed critical capital projects would raise the cost of unexpected emergency repairs an unknown amount. The Council did not choose the highest rates (which offered the least risk), but instead chose rates that would cover known and projected costs, while accepting a reasonable level of risk.

7. Why is Trilogy paying a bond and monthly water and sewer utility bill?

The bonds currently being paid by most homeowners of Trilogy are for the construction of the Northwest Treatment facility. The bond payments are for 30 years and are attached to individual parcels. The monthly water and sewer utility bill is for the operations of the Northwest Treatment facility.

8. Why didn’t the City plan ahead and raise rates accordingly?

The explanation why previous Council’s did not raise rates sufficiently is unknown. The last time water rates were raised was on July 2002 and sewer rates on July 2004. These increases were too small to cover increasing costs. Since then, there have been a number of factors that delayed decisions of Council and Staff with regard to utility rates.

Some of these factors included; the increasing citations addressing the operational problems at the Trilogy treatment facility in 2002 consumed staff time, frequent operational problems were being experienced at the Beach treatment facility due to contract operator error or neglect, city staff was occupied with selecting a new operator, and correcting State cited violations, and addressing the plant capacity issue. With the focus on the immediate issues, a rate study was not under taken in a timely manner until 2006 when the City did commence the process for a rate adjustment by approving a contract with a firm for a rate study. Due to transition in staffing, lack of readily available data, and focus on the construction of the Northwest Facility the new rates were not developed until mid to late 2007. When City staff proposed new rates in March 2008, there was an outcry from residents claiming the rates were too high. The current water rates were finally implemented in January 2009 and the sewer rates became effective in September of 2009.

Thank you for all your comments. For more information on water and sewer issues, please visit the City’s website, www.riovistacity.com.

Hector De La Rosa
City Manager