BAYSHORE SANITARY DISTRICT
MINUTES
Special Meeting of January 14, 2021

Roll Call:

The meeting was called to order at 7:01 P.M. As permitted per State of California Executive Order N-29-20 the meeting of the Bayshore Sanitary District was conducted via Zoom. Members of the public were invited to join the meeting. There was one request for the participation information.

Present: Constantino, Gallagher, Rizzi, Swanbeck, Tonna
Absent: None
Also: Maintenance Director Landi, Engineer Yeager, Counsel Hundley and District Clerk Landi
(Cecil Owens attempted to join the meeting)

Oral and Written Communications: (Concerning matters not on the Agenda; no action will be taken nor will extended discussion be permitted.)

(1) Communications from members of the public
None
(2) Communications from members of the District Board and Staff
None
(3) Acknowledgment of recent correspondence to the District
None

Old Business:

(4) SFPUC Sewer Service Charge

Mr. Yeager said that it has taken a lot of work trying to figure out what San Francisco (SF) is doing with regard to this year's sewer service charge (SSC). He has spreadsheets tracking all their budget items and also tracking of our flow vs. their flow. There is a good historical basis and a lot of data. The Engineer has requested additional information. Following is an analysis of the situation:

The billing for this year is $1,269,262 vs. last years' billing of $1,016,881. We discharged less wastewater this year than the prior year. The discharge was 5.7% less but we are being charged 24.8% more. In other words, we are being charged more for less service. One reason for some of this increase is the decrease in the wastewater discharged from their plants. One component we do not fully understand is the debt service discount.

We have data going back to 1997-98. The highest discharge for SF is 67 million units; the average is about 47 million units; and the lowest is 35 million units – this year. SF is saying the lowest discharge in the last 20 years was this year—a little hard to accept since it doesn't make sense. There is some impact due to Covid because business has been slowed since mid-March; however, that is only 3½ months of the billing cycle. The District's flow has been consistent with a high of 210 units and an average of 109 units. SF is a combined system—the more rain that occurs the lower the District's percentage is and the lower the SSC. In dry years we pay a higher percentage. Engineer Yeager has asked SF to do an analysis of their numbers because they just don't make sense. Also, he has not received the official budget that has been adopted by SF for this fiscal year and the next fiscal year. They are typically posted on the SF website but it appears they are having problems posting this year.

The discount for debt is more complicated than it should be and is hard to explain. Mr. Yeager reviewed Table 3 with regard to the R&R discount. SF uses this percentage discount to compute the dollar discount which is deducted from the net cost. Until last year it was relatively consistent – anywhere from 7-15% with dollar amounts between 5-10 million. Last year the R&R discount was 0% so we did not get a discount. This year SF has computed the R&R discount differently and it was 38.68%. We requested and received a draft invoice for budgeting purposes and that invoice was computed on the previous method of determine the R&R discount which resulted in an annual charge of $1,145,724. That amount wasn't that far off from our budget estimate. The final bill is $1,269,778, an increase of $124,054. The reason for this increase is the discount factor. In a letter from Erin Franks, an explanation was provided; however, Engineer Yeager doesn't understand it.

SF sends the Engineer the entire budget for the wastewater enterprise fund and they deduct a number of items from that budget including the R&R discount. We pay on the net budget after these discounts are applied. They had been billing one way under the new contract and basically they are now saying they don't want to continue with that method and now want to compute the R&R discount this new way.

With regard to debt service bonds, we receive a list of the bonds but have no idea what the bonds are for or how the proceeds are spent. Engineer Yeager thinks that the R&R discount is an estimate of how much of the bonded indebtedness goes to the wastewater collection system that is less than 36" in diameter. We could ask for a list of the projects done under these bonds. Counsel Hundley said SF needs to provide much more detail regarding the project bonding. She added that there is a cooperation clause in our agreement with SF and Engineer Yeager has been honoring that by working with Erin Franks. The Engineer said there are a lot of people in SF involved in the budgeting process. The question is can SF legally make these kinds of unilateral changes to the contract without discussing with the District. Counsel said that one possible remedy would be to have a forensic accounting firm review the bonding.

As mentioned last year there was no R&R discount. Using this new method last year's billing would have been about $60,000 less. Counsel suggested that the Engineer look back 5 years to determine how the new method would have impact the billing for those years.

In response to a question, Mr. Yeager said he will provide the per unit charge for treatment.

The bottom line is that we have a way to go before this matter is resolved.

(5) Rate increase

A detailed memo was provided to the Board prior to the meeting. The last time the SSC rates were increased was April, 2005. There is a fixed charge of $125 for each single family residence or dwelling unit and $5 per unit of water. Over the last several months we have discussed the fact that revenues do not cover all expenses. Mr. Yeager reviewed the Budget Model that begins with FY 2016 and goes forward with estimated expenses for the next 5 years. Operations and maintenance and plan review have been excluded. Capital expenditures come out of the CIP Reserve and capacity/connection charges are held in the CIP reserve account. To develop this look forward with regard to the future, assumptions were made. Changes can easily be made to the spreadsheets.

Some assumptions and observations are (1) interest rates will remain low during the 5 year planning period; (2) property tax is more difficult to predict especially since we have no idea what the

ERAF revenue will be; (3) minor expenses were increased 3.25%; explained what percentages were used to project other expense accounts; and projecting the SF charges is complicated. (4) We do have an SFPUC Contingency reserve fund. Should the budget consider tapping into the fund or should the District try to main that fund balance. (5) Another consideration is staff costs which have been below market. Allowing for the possibility of future staffing changes, the sums allocated reflect increases. (6) Outsourcing preventive maintenance and emergency response increase about 5% annually. Using these assumptions, if there is no SSC rate increase and the fees remain the same in 2021, there will be a $196,456 deficit. The deficit will continue for the next 5 years and would be about $2,000,000.

A second table provided projections based on an increase to the fixed rate of $125 to $225 and the $5.00 unit fee to $7.00. At the end of the 5 year projection there would be a $41,916 surplus. A family of 3 discharging 200 gpd currently pays $613 annually which would increase to $908; about $25 per month. This example results in an increase of about 48% but rates have not been raised for 16 years.

Director Tonna asked how this compares to the rates charged to Daly City residents. The Engineer said our rates are lower than Brisbane and Daly City. The Maintenance Director said that the Daly City/NSMCSD rate is $7.88 per unit. Director Tonna said the unit charge to San Francisco residents is $14.89. In response to a question from President Gallagher, the Engineer said that the District would likely need to consider another increase in about 5 years. Director Constantino prefers that the increase be less and then consider an increase in 5 years. Director Swanbeck would prefer using a two year plan. It was pointed out that the Prop 218 requirements are costly and take time.

The Engineer will provide some comparative rates to the Board so they can see rates being charged around the County. He will also provide the average rate. There was discussion of rates, the service we provide to residents, etc. The Engineer said that the Board has been fiscally responsible in managing our contingency funds which is a benefit to the District users.

Wrapping up the discussion the Engineer said his projections do not include future development, i.e. Midway Village, Pt. Martin, etc.

The drop dead date to complete this process and be able to provide information to EDS for placing the FY 2021-22 SSC on the tax rolls is June 1.

Adjournment:

A motion was made by Director Swanbeck, seconded by Director Tonna and passed by voice vote to adjourn the meeting at 9:00 P.M. The next regular meeting is January 28 , 2021 at 7:00 P.M.

Submitted by, Joann Landi

Iris Gallagher	Norman Rizzi
President	Secretary