

# CAPITAL IMPROVEMENT EXPENDITURE PROGRAM

## BASIS FOR THE PROPOSED BUDGET

### WASTEWATER SYSTEM IMPROVEMENT PROGRAM

The 2003-04 Proposed Budget for the Wastewater System Improvement Program (WSIP) relates to current year funding as follows:

	Amount	% Change
2002-03 Adopted Budget	\$ 651,385,463	
2003-04 Proposed Budget	\$ 697,146,543	
Change from 2002-03 Budget	\$ 45,761,080	7%

The Proposed Budget includes the Wastewater Capital Improvement Expenditure Program (\$268,200,000) and the related capital labor and expense costs (\$72,421,857). Also included in the WSIP are the costs of operating and maintaining the Wastewater System (\$196,153,023) payment of debt service on Wastewater System Revenue Bonds (\$133,188,414), a 45-day operating reserve (\$24,183,249) and an insurance reserve (\$3,000,000).

The WSIP is funded entirely from Wastewater System revenues, which are deposited into and expended from the group of funds known as the Sewer Construction and Maintenance (SCM) Fund. The SCM Fund was fully converted to an enterprise fund in order to support revenue bonds, approximately \$3.3 billion of which have been issued to date. A number of separate funds were created to properly account for revenues and expenditures and interest earnings on bond proceeds.

The WSIP is driven by the needs of the Wastewater System in terms of improvements and capacity requirements. The City successfully met the December 31, 1998 deadline of the Amended Consent Decree for Full Secondary treatment of all City wastewater. The current WSIP is focused on replacing large, aging interceptor sewers as stipulated in several Cease and Desist Orders. New operating regulations from State and federal agencies continue to be imposed on the System, increasing costs beyond those anticipated several years ago.

Increases in the Sewer Service Charge (SSC) are proposed to reflect increased costs and regulatory mandates and to provide adequate debt service coverage. The SSC has not been increased for over 10 years, during a time of increased costs and tightening regulations. The WSIP has maintained the rate through operating efficiencies and deferral of capital projects, but can do so no longer. As an enterprise fund the WSIP must have full cost recovery. The General Fund cannot contribute to maintain the level of service required. The proposed annual increases will be three percent (3%) beginning in fiscal year 2003-04 through fiscal year 2005-06 and four percent (4%) in fiscal year 2006-07 through fiscal year 2007-08. The first three percent increase on July 1, 2003 will cost the typical residential customer \$0.62 per month. Over the full five years, this increase will total \$3.77/month.

#### BUDGET HIGHLIGHTS

- ◆ Continuing construction of the East Central Interceptor Sewer (ECIS) and the Northeast Interceptor Sewer (NEIS) as well as other major collection system projects;
- ◆ Various projects to upgrade operating systems at Hyperion Treatment Plant, including a Process Steam Plant and replacement of equipment that has reached the end of its useful life;
- ◆ Continuing development of Class A Biosolids at Hyperion and Terminal Island Treatment Plants;
- ◆ Purchase of additional farm land for additional disposal facilities for the improved biosolids;
- ◆ Continued improvements to the North Outfall Sewer (NOS) in the area of the Zitola Tunnel and rehabilitation of the NOS Maze collection system; and

- ◆ Continuing improvements in automation of various treatment operations.

The notable change in Revenue is the proposed fee increase to support the increased costs of regulatory compliance. Other revenue changes are normal fluctuations in receipts.

	<b>2002-03 Adopted Budget</b>	<b>2003-04 Proposed Budget</b>
Balance Available, July 1	\$ 3,095,509	\$ 117,812,733
Receipts:		
Sewer Service Charge	359,000,000	369,900,000
Industrial Waste Surcharge	19,578,181	19,000,000
Sewerage Facilities Charge	4,000,000	4,300,000
Grants Reimbursement	500,000	--
FEMA/OES Reimbursement	9,500,000	10,500,000
Sewage Disposal Contracts		
O&M	14,000,000	14,000,000
Capacity	17,389,000	18,000,000
Miscellaneous Fees	2,235,000	2,449,000
Interest	18,000,000	12,000,000
Repayment of Loans	2,141,600	2,141,000
Proceeds from State Revolving Fund Loan	20,000,000	20,000,000
Reimbursement from Other Departments	6,993,138	3,000,000
Additional Revenue Debt	174,954,035	104,043,810
 Total Revenue	 <u>\$ 651,385,463</u>	 <u>\$ 697,146,543</u>

The following lists the proposed 2003-04 Wastewater Capital Expenditure Improvement Program by category of expenditure. Further detail of the capital program can be seen in the Proposed Budget document. Appropriations in the Capital Program are made to categories of projects as listed in the 2003-04 Proposed Budget. The following summarizes these appropriations by categories.

	2002-03 Adopted Budget	2003-04 Proposed Budget
<b>HOME AND COMMUNITY ENVIRONMENT FUNCTION</b>		
BF Wastewater Collection, Treatment and Disposal		
<b>1. Collection System (CS)</b> A significant portion of the Capital Program for this category reflects the several Cease and Desist Orders from the Regional Water Quality Control Board. Notable projects are the East Central Interceptor Sewer (ECIS), the Northeast Interceptor Sewer (NEIS), the North Outfall Sewer Rehabilitation and other sewer rehabilitation projects. Funds are also provided for miscellaneous replacement projects and emergency sewer repairs.	\$ 150,367,000	\$ 160,601,000
<b>2. Hyperion Treatment Plant (HTP)</b> Planned expenditures in this category are completion of the Primary Batteries Modernization, continued refinement of the Class A Biosolids operations, upgrading of the automation program for various processes and continuation of other rehabilitation projects.	19,447,000	27,113,000
<b>3. Los Angeles - Glendale Water Reclamation Plant (LAGWRP)</b> Removal of nitrogen, to comply with regulatory demands, Installation of emergency backup power and replacement and improvement of various equipment and processes are programmed.	2,030,000	8,030,000
<b>4. Pumping Plants (PP)</b> The major project in this category concerns work on the Venice Pumping Plant and Force Main. Other small projects are also funded.	555,000	5,150,000
<b>5. Terminal Island Treatment Plant (TITP)</b> The major expenditures in this category are continued funding for the conversion of the biosolids processes to produce Class A biosolids, modifications to the administration building and other projects for standard replacement and maintenance.	4,067,000	9,783,000
<b>6. Donald C. Tillman Water Reclamation Plant (TWRP)</b> Funding is provided for automation of processes and standard replacement and maintenance.	2,074,000	8,939,000
<b>7. System-wide Consultant Services (SW)</b> This category funds miscellaneous system-wide activities, such as facilities planning, financial consultants and construction services. Major increases in the 2002-03 Proposed Budget are due to construction services for the ECIS and NEIS projects. Funds are also budgeted for the Los Angeles Zoo Drainage Project as a loan to the Stormwater Program. Purchase of additional farm land is also planned, to meet the biosolids disposal requirements that will come with production of Class A biosolids.	41,464,000	38,584,000
<b>8. Earthquake Repairs</b> Funds are provided to FEMA/OES reimbursable projects for repair of damage caused by the 1994 Northridge Earthquake. No funds are provided for contingencies. If such funding is required, Program Management will reprogram funds from other projects.	10,000,000	10,000,000
<b>TOTAL WASTEWATER CAPITAL IMPROVEMENT EXPENDITURE PROGRAM</b>	<b>\$ 230,004,000</b>	<b>\$ 268,200,000</b>

	2002-03 Adopted Budget	2003-04 Proposed Budget
<b>GENERAL FUND REIMBURSEMENTS</b>		
SCM Funds are allocated to the General Fund to provide reimbursement for the cost of wastewater related activities in various City departments, offices and bureaus, including related costs. Except where noted, variances reflect the net impact cost-of-living salary adjustments and changes in overhead rates.		
<b>Building and Safety</b> – Enforcement of sewer inflow/infiltration program and the Fats, Oil and Grease Program.	\$ 35,608	\$ 43,518
<b>City Administrative Officer</b> - Budget, financial and administrative services. The increase reflects the transfer of the Risk Management staff.	157,951	332,070
<b>City Attorney</b> - Legal and litigation services. Additional staff have been identified as providing services to the Wastewater Program.	720,476	893,378
<b>Controller</b> - General support for billings, payments and payroll	210,334	203,870
<b>Environmental Affairs</b> - Regulatory and monitoring support.	349,308	327,486
<b>Finance</b> - Special billing and collection of fees. The Treasurer and Risk Management functions are transferred to other departments	689,810	179,420
<b>General Services</b> – Fleet services, materials testing, warehouse services, mail and messenger services.	3,801,880	3,865,970
<b>Information Technology</b> - Data services to support billing and accounting systems and telecommunications services. No increase has been requested over the prior year.	434,372	434,372
<b>Personnel</b> - Personnel selection and occupational safety services. The increase also reflects additional personnel services at Hyperion Treatment Plant	197,046	307,007
<b>Planning</b> - General Plan Framework staff.	91,137	94,782
<b>Public Works</b>		
<b>Board of Public Works</b> - General oversight of the Department of Public Works.	556,877	601,172
<b>Contract Administration</b> - Construction inspection services. Most expense funds have been placed in the Wastewater Special Purpose Fund.	6,854,219	7,101,630
<b>Engineering</b> - Design and construction management services.	33,622,367	35,188,243
<b>Financial Management and Personnel Services</b> – Oversees various Department of Public Works functions and provides direct management of the accounting and personnel functions. The decrease reflects the efficiencies of the new Bureau following the start-up year.	2,727,579	2,469,979
<b>Sanitation</b> – Planning, operation and coordination services. The increase reflects new programs.	82,121,399	87,238,905

CIEP - Wastewater System Improvement Program

	2002-03 Adopted Budget	2003-04 Proposed Budget
<b>Transportation</b> – Traffic control, review of plans and related duties connected with major sewer construction. The decrease reflects the workload after a start-up year.	\$ 99,696	\$ 83,532
<b>Treasurer</b> – Debt issuance services	--	456,424
<b>Related Costs</b>	43,713,315	38,496,146
<b>TOTAL GENERAL FUND REIMBURSEMENTS</b>	<u>\$ 176,383,374</u>	<u>\$ 178,317,904</u>
<b>EXPENSE AND EQUIPMENT ITEMS</b>		
In accordance with enterprise fund operations, expense and equipment items are budgeted for expenditure directly from SCM funds for the following departments. Variances are due to expense increases such as contracts and utilities, offset by reductions for one time equipment purchases.		
<b>Bureau of Contract Administration</b> - Equipment and expense.	\$ 358,108	\$ 123,318
<b>Bureau of Engineering</b> - Contracts, equipment and expense.	2,732,290	2,144,696
<b>Bureau of Financial Management &amp; Personnel Services</b> – Accounting and personnel Services for the Department of Public Works	-	39,326
<b>Bureau of Sanitation</b> – Contractual services, field equipment expenses, operating supplies, administrative supplies, furniture, equipment and security improvements. This amount also includes accounting charges for discontinued capital projects. Other increases are due to greater regulatory requirements.	52,363,828	57,027,361
<b>City Attorney</b> – Litigation support	-	600,000
<b>Controller</b> – New payroll system	-	393,000
<b>Department of General Services</b> - Office leases, laboratory expenses, replacement vehicles and miscellaneous expenses.	8,979,234	8,586,905
<b>Utilities</b> - Gas, water, electricity and telephone expenses at plants and field locations	13,241,077	15,021,570
<b>Department of Water and Power Billing/Collection Fee</b>	2,980,800	2,980,800
<b>Liability Claims</b>	240,000	240,000
<b>Sewer Service Charge Refunds</b>	2,000,000	2,000,000
<b>TOTAL EXPENSE AND EQUIPMENT</b>	<u>\$ 82,895,337</u>	<u>\$ 89,156,976</u>
<b>OTHER BOND REQUIREMENTS</b>		
45-day Operation and Maintenance Reserve	\$ 23,002,325	\$ 24,183,249
Debt Service	135,400,427	133,188,414
Insurance Reserve	3,000,000	3,000,000
Bond Issuance Costs	700,000	1,100,000
<b>TOTAL OTHER</b>	<u>\$ 162,102,752</u>	<u>\$ 161,471,663</u>
<b>TOTAL 2003-04 WASTEWATER SYSTEM IMPROVEMENT PROGRAM</b>	<u>\$ 651,385,463</u>	<u>\$ 697,146,543</u>

