



OFFICE OF THE CITY MANAGER

Mr. Rob Bartoli
Executive Officer
San Mateo Local Agency Formation Commission
455 County Center, 2nd Floor
Redwood City, California 94063-1663

**RE: Response to Comment Letter for LAFCo File No. 22-09
Proposed Establishment of the East Palo Alto Sanitary District as a
Subsidiary District of the City of East Palo Alto**

Dear Mr. Bartoli

The City of East Palo Alto (City) has received the Comment Letter from the San Mateo Local Agency Formation Commission (LAFCo) dated January 13, 2023 regarding the City's proposal to establish the East Palo Alto Sanitary District (District) as a subsidiary district of the City. We have provided responses to each of the questions and comments identified in LAFCo's letter and we have organized our responses by first presenting LAFCo's question/comment followed by the City's response.

Comment 1

Response 3b notes that the EPASD General Manager's employment agreement ends on October 23, 2022. Please review the ending date of the contract and update if needed.

Response 1

The EPASD General Manager's employment agreement amendment information was included with the published agenda for the October 6, 2022 Regular Board Meeting and the minutes from the October 6, 2022 Regular Board Meeting Minutes confirmed that Amendment No. 7 was approved. However, neither the October 6, 2022 Regular Board Meeting Minutes nor the amendment information presented as an attachment to the October 6, 2022 agenda included the ending date for the employment agreement. Based on the limited publicly available information related to the General Manager's employment agreement up to and including Amendment No. 7, the City understands that the employment agreement is renewed annually and Response 3b was intended to state that the employment agreement is believed to expire in October 2023.

Comment 2

Regarding Response 3c, LAFCo would like the City to explore the creation of an advisory committee, or similar entity, to the governing board should the formation of a subsidiary district be approved by the Commission. The size and scope of the advisory commission can be determined by the City, but LAFCo would recommend the inclusion of at least one advisory position allocated to EPASD ratepayers who reside in the Menlo Park area of the district.

Response 2

The City concurs with LAFCo future advisory commission include at least one advisory position from an EPASD ratepayer that resides in Menlo Park. The City understands the importance of representation. Please let us know if LAFCo would like City staff to provide a proposal for the advisory commission or, as noted in Response 3c, if LAFCo will include a condition of approval the requirement of including at least one EPASD ratepayer who resides in Menlo Park to be part of the future advisory commission.

Comment 3

Response 3d states that the City would address the net pension liability of the District through pre-funding and long-term budget forecasting. The response also states that expenditures could be allocated for reserves. Please show the CalPERS pension costs in the proposed project budget of the subsidiary district that was prepared by Freyer & Laureta for FYs 2022-23 to 2026-27. These costs should also be shown in expense category tables as well (e.g. Table 7 of the Freyer & Laureta memo showing the estimated annual operating and maintenance expenses) or in a separate table showing pension liability and costs.

Response 3

Table 7 (Estimated Annual Operating & Maintenance Expenses) has been revised to incorporate the District reported Net Pension Liability as of June 30, 2021 in the amount of \$1,858,898 that will be addressed through pre-funding approach using equal annual payments over a 20-year period. Note (5) has been added to Table 7 to document the proposed Salaries, Wages and Benefits amount includes the CalPers contribution for potential subsidiary district employees. All Table 7 revisions are shown in red text. In addition, Table 11 (Wastewater Enterprise Fund Cash Flow Projections) has been revised to incorporate the revisions made to Table 7. Both Table 7 Revision 1 and Table 11 Revision 1 are included as attachments to this letter.

Comment 4

Does the City have information regarding any existing surcharging with the EPASD system? Response 3g states that the 2015 EPASD Master Plan allowed for at least four feet of freeboard while preventing sanitary sewer overflows. Is the sewer system currently operating within this parameter?

Response 4

The City does not have any information on any existing surcharging within the EPASD system other than the General Manager report included with the Regular Board Meetings generally indicates that EPASD has not experienced any sanitary sewer overflows.

Finally, we are in receipt of the email you sent on February 16, 2023; you will receive our response to those questions next week.

Please contact me at (650) 853-3100 or pheisinger@cityofepa.org with any further questions.

Sincerely,

Patrick Heisinger

Patrick Heisinger
Assistant City Manager

Attachments

Table 7 (REVISION 1 – FEBRUARY 16, 2023) Estimated Annual Operating & Maintenance Expenses

Table 11 (REVISION 1 – FEBRUARY 16, 2023) Wastewater Enterprise Fund Cash Flow Projection

Table 7 (REVISION 1 - FEBRUARY 16, 2023)
Estimated Annual Operating & Maintenance Expenses
 Sanitary Sewer Capital Improvement and Operation Plan Development
 East Palo Alto, California

	WBSD (1)	2022/23	2023/24	2024/25	2025/26	2026/27
Cost Escalation	-	-	3.0%	3.0%	3.0%	3.0%
Ratio of EPASD Pipe Mileage to WBSD (2)	-	15.0%	-	-	-	-
Proposed Operating & Maintenance Expenses (3)						
Salaries, Wages, & Benefits (5)	\$ 6,600,000	\$ 990,000	\$ 1,020,000	\$ 1,051,000	\$ 1,083,000	\$ 1,115,000
General Liability & Workers Comp Alloc	\$ 9,100,000	\$ 1,365,000	\$ 1,406,000	\$ 1,448,000	\$ 1,491,000	\$ 1,536,000
Pre-Fund Existing EPASD Net Pension Liability (6)	N/A	\$ 93,000	\$ 93,000	\$ 93,000	\$ 93,000	\$ 93,000
Total Operating & Maintenance Expenses		\$ 2,355,000	\$ 2,426,000	\$ 2,499,000	\$ 2,574,000	\$ 2,651,000

Notes

- (1) To develop estimated annual operation and maintenance expenses excluding fees paid to City of Palo Alto, the WBSD Fiscal Year 2022/2023 budget dated June 2022 was used as the basis for costs. See Page 8 of the referenced WBSD budget document for the source of expenses presented above.
- (2) WBSD collection system includes over 200 miles of gravity pipes and the EPASD collection system includes over 30 miles of gravity pipes.
- (3) The estimated Fiscal Year 2022/2023 operating and maintenance expense for the EPASD collection system is calculated by multiplying the Ratio of EPASD Pipe Mileage by the WBSD expenses. All costs rounded to nearest \$1,000.
- (4) An annual cost escalation is applied in each subsequent fiscal year following Fiscal Year 2022/23.
- (5) The Salaries, Wages, and Benefits presented include the contributions to CalPERS. The WBSD Fiscal Year 2022/2023 budget dated June 2022 indicates that CalPERS contributions account for five-percent of the total Salaries, Wages, and Benefits.
- (6) As of June 30, 2021, EPASD reported a net pension liability of \$1,858,898 and the City proposes to utilize a pre-funding strategy to address the net pension liability with equal annual payments over a 20-year period. EPASD did report that in December 2021 a lump sum payment in the amount of \$1,400,000 but there is not any publicly available information since June 30, 2021 to confirm the current net pension liability. To be conservative, the budget net pension liability reflected above is the June 30, 2021 reported liability.

Abbreviations

CalPERS: California Public Employees Retirement System
 EPASD: East Palo Alto Sanitary District
 WBSD: West Bay Sanitary District

References

- 1. Budget for Fiscal Year 2022/2023 prepared by WBSD dated June 8, 2022 can be accessed from the following link:
https://westbaysanitary.org/wp-content/uploads/2022/08/2022-23_Budget_Report_Approved-6-8-22.pdf

Table 11 (REVISION 1 - FEBRUARY 16, 2023)
Wastewater Enterprise Fund Cash Flow Projections
Sanitary Sewer Capital Improvement and Operation Plan Development
East Palo Alto, California

	2022/23	2023/24	2024/25	2025/26	2026/27
Overall Rate Adjustment	0%	5%	5%	5%	5%
Annual Sewer Charge (per EDU) (1)	\$690	\$725	\$761	\$799	\$839
Connection Fee (per EDU) (2)	\$6,060	\$6,363	\$6,681	\$7,015	\$7,366
Total New EDUs (3)	-	33	709	555	-
Total EDUs (3)	4,443	4,476	5,186	5,741	5,741
Interest Earnings Rate	0.5%	0.5%	0.5%	0.5%	0.5%
Beginning Reserve Funds	\$17,380,000	\$14,416,886	\$11,696,069	\$12,877,231	\$13,641,008
REVENUES					
Sewer Service Charges (4)	\$3,065,986	\$3,243,224	\$3,945,075	\$4,585,641	\$4,814,923
Connection Fees (5)	\$0	\$210,244	\$4,739,878	\$3,893,440	\$0
Property Taxes (6)	\$521,000	\$536,630	\$552,729	\$569,311	\$586,390
ERAF Rebate/Former RDAF (6)	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Investment Earnings (7)	\$86,900	\$72,084	\$58,480	\$64,386	\$68,205
Total Revenues	\$3,973,886	\$4,362,183	\$9,596,162	\$9,412,778	\$5,769,518
EXPENSES					
Operating & Maintenance					
Salaries & Benefits (8)	\$990,000	\$1,020,000	\$1,051,000	\$1,083,000	\$1,115,000
General Liability & Workers Comp Alloc (8)	\$1,365,000	\$1,406,000	\$1,448,000	\$1,491,000	\$1,536,000
Pre-Fund Existing EPASD Net Pension Liability (8)	\$93,000	\$93,000	\$93,000	\$93,000	\$93,000
PARWQCP Wastewater Treatment (6)	\$2,435,000	\$2,510,000	\$2,591,000	\$2,665,000	\$2,496,000
Subtotal	\$4,883,000	\$5,029,000	\$5,183,000	\$5,332,000	\$5,240,000
Capital & Other Non-Operating					
Sewer Rehab Improvements (9)	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Capacity Assurance Improvements (10)	\$0	\$0	\$1,093,000	\$1,093,000	\$1,093,000
Subtotal	\$1,500,000	\$1,500,000	\$2,593,000	\$2,593,000	\$2,593,000
Debt Service					
EPASD 2011 SRF Loan (6)	\$79,000	\$79,000	\$79,000	\$79,000	\$79,000
Share of Existing PARWQCP Debt (6)	\$203,000	\$203,000	\$128,000	\$128,000	\$128,000
Share of Projected PARWQCP Debt (6)	\$272,000	\$272,000	\$432,000	\$517,000	\$517,000
Subtotal	\$554,000	\$554,000	\$639,000	\$724,000	\$724,000
Total Expenses	\$6,937,000	\$7,083,000	\$8,415,000	\$8,649,000	\$8,557,000
Revenues Less Expenses	(\$2,963,114)	(\$2,720,817)	\$1,181,162	\$763,778	(\$2,787,482)
Ending Reserve Fund	\$14,416,886	\$11,696,069	\$12,877,231	\$13,641,008	\$10,853,526

Notes are on Page 2 of 2.

Table 11 (REVISION 1 - FEBRUARY 16, 2023)
Wastewater Enterprise Fund Cash Flow Projections
Sanitary Sewer Capital Improvement and Operation Plan Development
East Palo Alto, California

Notes

- (1) Proposed Annual Sewer Charge is shown as the proposed rate from Table 4 of the East Palo Alto Sanitary District 2019 Sewer Rate Study prepared by Bartle Wells Associates dated April 17, 2019.
- (2) Proposed Connection Fee matches EPASD current connection fee published on the EPASD web site under Forms & Permits.
- (3) See Table 6 for the current number of EDUs and estimate for annual increase in EDUs.
- (4) Sewer Service Charges is calculated by multiplying Total EDUs by Annual Sewer Service Charge.
- (5) Connection Fees is calculated by multiplying Total New EDUs by Connection Fee.
- (6) Source of revenues and expenses is Table 4 of the East Palo Alto Sanitary District 2019 Sewer Rate Study prepared by Bartle Wells Associates dated April 17, 2019.
- (7) Investment income is interest income on Beginning Fund Reserve.
- (8) Operating & Maintenance Expenses are presented in Table 7.
- (9) The City Sewer Rehab Improvement is an ongoing annual program to replace pipes that are found to be damaged or at the end of service life but not included Capacity Assurance Improvements or Developer Impact Capacity Improvements.
- (10) Capacity Assurance Improvements is an annual expenditure to implement the improvements identified in Table 2 over a 15 year period. The design and construction will be completed in phases beginning in Fiscal Year 2024/25 once new development begins to come on line.

Abbreviations

EDUs: Equivalent Dwelling Units

EPASD: East Palo Alto Sanitary District

PARWQCP: Palo Alto Regional Water Quality Control Plant

References

1. East Palo Alto Sanitary District 2019 Sewer Rate Study prepared by Bartle Wells Associates dated April 17, 2019 can be accessed from the following link:
<https://www.epasd.com/home/showpublisheddocument/3588/637116752736400000>
2. EPASD current fees including connection fees can be accessed from the following link:
<https://www.epasd.com/residents/forms-permits>