



Forward to Ppw for review & recommendation 7/14/2017

DATE: July 12, 2017

TO: Michael O. Geisel, P.E.
City Administrator

FROM: James A. Eckrich, P.E. *[Signature]*
Public Works Director / City Engineer

RE: Sewer Lateral Program

In 2000 the voters of Chesterfield approved the collection of \$28 from every single family home, duplex, condominium building, and multi-family building containing six or less dwelling units for the purpose of repairing defective sanitary sewer laterals. In this context, a sanitary sewer lateral is defined as the portion of the sanitary sewer which extends from outside the building foundation to the public sanitary sewer main. Eligible costs include camera investigation, excavation of the defective lateral, repair of the lateral, backfill, and site restoration. The City of Chesterfield collects approximately \$425,000 annually for this purpose.

Since the inception of the Sanitary Sewer Lateral Program, the City of Chesterfield has spent \$6,980,756 to repair 1,741 defective sewer laterals. This averages to approximately 110 sewer lateral repairs annually at approximately \$4,000 per repair. The Sewer Lateral Program is a very popular program and residents who experience sewer lateral problems frequently compliment the City on this program and the way it is administered. This is primarily due to Project Manager Matt Dooley and Executive Assistant Kathy Juergens who serve as the City's primary contacts to residents throughout the process.

The program works as follows. Residents experiencing sewer lateral problems first contact a plumber or drain layer of their choice to have their sewer lateral cabled. This initial cabling is a regular maintenance expense and not eligible for reimbursement through the Sewer Lateral Program. If a problem is encountered, or the line cannot be opened, the resident can apply for the Sewer Lateral Program by submitting an application and a \$100 fee. As you may recall, the fee was reduced from \$200 in 2013 due to complaints about the application fee and the health of the Sewer Lateral Fund. Once in receipt of the application and fee the City schedules a video investigation and, if eligible, coordinates the repair of the defective sewer lateral. The camera investigation and repair are conducted by a plumbing company under an annual contract. This allows the repair to be completed in the most timely and cost effective manner possible.

The Sewer Lateral Program is an excellent program which helps 100+ residents each year fund necessary repairs so that their sanitary sewer functions properly. Updates regarding the Sewer Lateral Program are included each month within the Public Works Department Capital Projects Report.

I am bringing the Sewer Lateral Program to your attention because over the last seven years the Sewer Lateral Fund's cash balance has been reduced by approximately \$245,000, and contains a current cash balance of approximately \$361,000. The cash within this Fund varies substantially

throughout the year, as property tax is typically collected near the beginning of the year. For example, in 2016 the cash balance within the Sewer Lateral Fund varied from \$566,000 to \$180,000. The highest cash balance typically occurs in January / February, while the lowest cash balance typically occurs in November.

As the City of Chesterfield ages, I would expect there to be more and more sewer lateral repairs each year. This is corroborated by the history of the program which shows the first five years of the program averaged 80 applications per year, while the most recent five years have resulted in an average of 125 applications per year. Throughout the last ten years of the program the average cost per repair has remained fairly consistent, with occasional outliers.

I am reluctant to recommend modifications to the Sewer Lateral Program which reduce service, as I believe the Program is very well administered and well received by the public. The only real complaints we have historically received regarding the Program were due to the \$200 application fee, which was reduced to \$100 in 2013. Subsequent to the reduction in application fee we rarely, if ever, receive complaints about the Sewer Lateral Program. That said, as I look at the finances of the Sewer Lateral Fund, I recognize that if no action is taken the Fund will likely go negative (in the red) in November of 2018 or 2019. It will quickly return positive (to the black) when we again receive the sewer lateral property tax in December of that year. However, I believe the temporary negative status of the fund warrants discussion on the future of the Sewer Lateral Program.

Options I see to modify the Sewer Lateral Program are as follows:

- 1) Change the application fee back to \$200. Estimated annual revenue increase of \$12,500. This is not recommended, unless necessary, based upon the positive feedback associated with the previous fee reduction.
- 2) Cap repair costs at \$10,000. Currently, repairs are capped at \$15,000. Were the cap to be reduced to \$10,000, the estimated annual savings are approximately \$15,000. This is not recommended, unless necessary, as those residents that require expensive repairs are those who need the program the most.
- 3) Implement a cost share program. If annual sewer lateral expenditures are \$400,000, and the City implemented a cost share program whereby residents would pay twenty percent of the actual costs, the annual expenditure reduction would be \$80,000. The annual expenditure reduction would obviously vary based upon the cost share percentage chosen. Negative ramifications would include negative reaction associated with the Program no longer paying 100% of the costs, collection efforts the City would incur, and potential disputes regarding the selection of the contractor. I am reluctant to recommend a cost share program unless an expenditure reduction is imperative.
- 4) Remove the transfer to the General Fund for administrative costs incurred by the City of Chesterfield. Each year the City of Chesterfield transfers approximately \$50,000 from the Sewer Lateral Fund to the General Fund to cover a portion of the salaries of those employees who administer the Sewer Lateral Program. Eliminating that transfer would save approximately \$50,000 annually in the Sewer Lateral Fund.
- 5) Increase the annual Sewer Lateral tax from \$28 to \$50. When the tax was implemented in 2000 the Missouri State Statutes allowed a maximum tax of \$28. Many cities found that tax to be too low, and the allowable tax was subsequently raised to \$50. Increasing the tax would require a vote of the residents. If approved, it would result in an annual revenue increase of over \$300,000. Prior to initiating an expenditure reduction, City Council may wish to consider a tax increase up to the maximum annual assessment of \$50.

I have consulted with the Finance Director in detail regarding the annual revenues and expenditures of the Sewer Lateral Fund, including cash flow. It is my opinion that the long term viability of the Sewer Lateral Fund requires some combination of expenditure reduction or revenue increase of \$80,000 per year. Most of that could be accomplished by the elimination of the annual General Fund transfer of \$50,000. Given the additional General Fund revenues anticipated in the upcoming year, I recommend that this transfer be eliminated over the next two to three years. This will reduce Sewer Lateral Fund expenditures by approximately \$50,000, and allow the City additional time to monitor the Sewer Lateral Fund, specifically the November cash balance. If the elimination of this transfer is sufficient, no additional action will be required. If the cash balance continues to drop, and the Fund becomes negative in November of an upcoming year, additional measures could be implemented at that time.

Please note that while I believe a discussion regarding the Sewer Lateral Program and long-term health of the Sewer Lateral Fund is prudent at this time, there is no action immediately required. If no action is taken the Fund will likely go negative in the fall of 2018 or 2019, and in future years, *for only a month or two*. The Fund will return to positive status when property taxes are collected in December.

Action Recommended

This matter should be forwarded to the Planning and Public Works Committee for consideration. Should the Committee concur with Staff's recommendation and favorably consider the short term elimination of the annual transfer from the Sewer Lateral Fund to the General Fund, that transfer can be removed from the 2018 Budget Submittal and considered by the full City Council at that time. Should the Committee prefer changes to the Sewer Lateral Program, those can be drafted by City Staff and presented to the full City Council for consideration. If no action is taken, the Sewer Lateral Program and Fund will be monitored and this matter will be again presented to the PPW Committee in the summer / fall of 2018.

Sanitary Sewer Lateral Program

YEAR	APPLICATIONS RECEIVED	COMPLETED REPAIRS	ANNUAL EXPENDITURES	AVERAGE COST PER REPAIR	ANNUAL REVENUE	END OF YEAR CASH BALANCE
2010	94	85	\$ 404,887.00	\$ 4,763.38	\$ 430,869.00	\$ 726,918.00
2011	101	88	\$ 324,289.00	\$ 3,685.10	\$ 413,777.61	\$ 816,406.61
2012	128	117	\$ 502,699.50	\$ 4,296.58	\$ 429,985.21	\$ 743,692.32
2013	124	110	\$ 493,391.15	\$ 4,485.37	\$ 391,634.42	\$ 641,935.59
2014	120	107	\$ 437,308.11	\$ 4,086.99	\$ 455,081.02	\$ 659,708.50
2015	129	120	\$ 492,680.55	\$ 4,105.67	\$ 451,071.37	\$ 618,099.32
2016	125	109	\$ 528,544.53	\$ 4,849.03	\$ 392,446.80	\$ 482,001.59
2017	70	63	\$ 253,298.22	\$ 4,017.43	\$ 131,989.18	\$ 360,692.55

2017 figures are YTD