



**City of Sausalito
Sausalito-Marin City Sanitary District**

**Sewer Collection Consolidation Feasibility Study
Phase I**

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Acronym Listing

AO	Administrative Order	MMWD	Marin Municipal Water District
BAAQMD	Bay Area Air Quality Management District	MOU	Memorandum of Understanding
CAFR	Comprehensive Annual Financial Report	MRP	Monitoring and Reporting Plan
CCF	Hundred Cubic Feet	O&M	Operations & Maintenance
CCTV	Closed Circuit Television	OERP	Overflow Emergency Resp Plan
CIP	Capital Improvement Plan	OPEB	Other Post Employee Bene
CIPP	Cured In Place Pipe	PSL	Private Sewer Lateral
CWIQS	Ca Wastewater Identification	R&R	Renewal & Replacement
City	City of Sausalito	RFP	Request for Proposal
CWA	Clean Water Act	RWQCB	Regional Water Board
EDU	Equivalent Dwelling Unit	SFR	Single family Residential
EPA	Environmental Protection Ag	SMCSD	Sausalito-Marin City Sanitary
FY	Fiscal Year	SRF	State Revolving Fund
GGNRA	Golden Gate Nat Recreation	SSC	Sewer Service Charge
HDPE	High-Density Polyethylene	SSMP	Sewer System Management Plan
I/I	Inflow/Infiltration	SSO	Sanitary Sewer Overflow
JPA	Joint Powers Agreement	SWRCB	State of Water Board
LAFCO	Marin County Local Agency Formation Commission	TCSD	Tamalpais Community Serv District
MERA	Marin Emergency Radio Authority	UAAL	Unfunded Actuarial Accrued Liability
MFR	Multiple Family Residential		

VCP	Vitrified Clay Pipe	WQMP	Water Quality Monitoring Plan
WDID	Wastewater Discharge Identification Number	WWTP	Wastewater Treatment Plant
WDR	Waste Discharge Requirement		

Sewer Committee Draft

A. Executive Summary

Purpose:

The City of Sausalito (City) and Sausalito-Marin City Sanitary District (SMCSD) have historically had a very positive, collaborative relationship regarding their sewer systems operations and wastewater conveyance and treatment responsibilities. The original agreement between the two agencies is dated 1953 and has not had substantial revision to reflect the current relationship. In recent years, both agencies have considered the benefits of an expanded services agreement or consolidation of the City's sewer collection system into SMCSD operations.. Consequently, the agencies have jointly undertaken this Sewer Consolidation Feasibility Study, which is the first phase considering a consolidation of the systems. Following this Phase I- Consolidation Feasibility Study and a determination by both governing bodies to move forward with the consolidation option, a subsequent Phase II would be undertaken to develop an Operational Implementation Plan to review how the City sewer collection system could be consolidated into the SMCSD operations.

Discussion:

Marin County has a track record of success in both functional and structural consolidations of sewer systems. More effective and efficient operations have been gained through economies of scale with regional consolidation of agency staff functions, equipment and capital programs benefiting rate payers and customers. Southern Marin County currently has 12 wastewater municipal agencies managing the sanitary sewer systems of 55,000 people in southern Marin County necessitating serious consideration for the consolidation and wastewater streamlining to the benefit of customers. The previous reviews and service revision evaluations have resulted in the Marin LAFCO and the Marin Grand Jury recommending that customers can experience enhanced services through consolidations of wastewater services.

Due to the high cost area of Southern Marin both agencies are challenged by staff recruitment and retention affecting operational reliability, maintenance capabilities and enhanced customer service levels are being challenged by both agencies. System reliability relies on the organizational ability to hire and retain long-term, well-trained, specialized and certified operations, maintenance and collection system workers. In addition, the City sanitary sewer system, capital program bids that exceed estimated budgets for work on a sewer system that is older and is complicated by terrain, groundwater, and other site constraints. In addition, ever-changing regulatory requirements, Clean Water Act citizen lawsuits, and state enforcement actions have significantly increased the City's exposure to risk and liabilities from the operation of its sanitary sewer collection system. These expanding requirements on the City Public Works Department and other City staff require a broad evaluation of the options and alternatives available to assure best in class customer services to City rate payers.

A relatively small city such as Sausalito has many differing customer needs and the sewer function is just one of those customer supported activities that the Public Works Department must provide. Sanitary sewer program management and operations are not the staffs' full time responsibility as it is with a special district such as SMCSD. However, consideration of movement of the sewer function to SMCSD is not without the need to more fully understand and evaluate all potential impacts from such a change in service provision to both agencies. Past

consolidations of the City of Belvedere and the Tiburon Sanitary District and the very recently approved consolidation of Murray Park and the RVSD will provide positive examples and potential guidance for the consideration of either expanded functional consolidation or a full structural consolidation. In addition, the previous City and Southern Marin Fire Consolidation can also be instructive of the issues and actions necessary for a successful change in organization for the Sausalito sanitary sewer collection system operations. These are just a few examples demonstrating the need to consider further consolidation of these critical public services.

The City has owned and operated its sanitary sewer collection system and discharges into the SMCSD conveyance system where full treatment and disposal of wastewater into the San Francisco Bay meeting applicable discharge requirements to the Bay. SMCSD conveys and treats wastewater from the City, the Tamalpais Community Services District (TCSO), the National Park Service, the county unincorporated areas as well as the floating homes and many of the uses in the Marin Headlands areas of the County. Each of the parties discharging to SMCSD have individual agreements with the SMCSD defining the roles and responsibilities of each. The City agreement was completed in 1953 and is very out of date.

The City of Sausalito collection system service area is fully contained within the current SMCSD service area and all City customers are all currently customers of both agencies.. The City collection system consists of approximately 21 miles of sewer pipes and four pump stations. The City discharges to the SMCSD conveyance system. SMCSD's system has 6.4 miles of collection system, 3.7 miles of large diameter conveyance system piping, 6 separate pump stations, a 9 million gallon per day (mgd) secondary and 6 mgd tertiary sewage treatment plant. SMCSD has for many years successfully provided all operations, maintenance and rehabilitation on behalf of the City for the City's four pump stations.

The two agencies have, for a long period of time, supported each other through functional consolidation, providing services such as contract O&M of the City pump station, coordinated capital project management and completion, staffing and equipment support during emergency response incidents, joint training and exercises and generally sharing experiences and backgrounds of the staffs. In addition, they have also worked together to comply with the 2008 regulatory requirements by the Environmental Protection Agency Region 9 (EPA) to reduce infiltration/inflow (I/I) from each sewer system tributary to the treatment plant.

In January 2020, the City and SMCSD agreed to initiate a Feasibility Study to consider consolidation that would result in the transfer of all City sewer collection system responsibilities and operations to the SMCSD. The attached Feasibility Study provides the review, evaluation and analysis of alternatives to include consolidation available for the future operations of the City collection system.

Alternatives:

The Feasibility Study has identified the following four (4) alternatives for consideration by the two agencies:

1. Updated and/or Expanded Services Agreement

Updates the existing 1953 Service Agreement to reflect the current scope of services and responsibilities of each agency. The existing 1953 service agreement primarily covers the operations and maintenance of the four City pump stations by the SMCSO. Or the agreement could be revised and scope of services expanded to include additional shared responsibilities and/or agreement language to implement a phased system consolidation with a specific timeline. The option language to consolidate in the services agreement would include the conditions and activities necessary as described in a Phase II Operational Plan. This Service Agreement Alternative does not transfer the ownership of the collection system to SMCSO however contains provisions for a consolidation at a future date with conditions defined by the operational plan if at a later date determined to be desirable by both agencies.

2. Consolidation

Agreement by the agencies that would result in consolidation of the City collection system into the SMCSO upon completion of any required actions or outside requirements necessary to support the legal transfer of the responsibility to SMCSO. This alternative would transfer all management, operations, replacement, regulatory compliance responsibilities and financial obligations and responsibilities from the City and City Public Works Department to SMCSO. This would occur upon completion of necessary actions as identified in a Phase II Operational Implementation Plan that determines how and when the transition takes place. Following the determination by both governing bodies that a consolidation is feasible, the consolidation alternative first requires the operational plan to be completed to assure both agencies and the public that the scope, timeline and challenges required to accommodate such a consolidation into SMCSO are understood and a proper transition is assured.

3. Privatization

Privatize the City collection system; this alternative would require the City to sell the assets of the City collection system to a private company, and consequently transfer the complete responsibility for management, operations, maintenance, capital and regulatory compliance of the collection system to a private company by private agreement.

4. Joint Powers Authority (JPA)

This alternative would have the City enter into an existing JPA relinquishing operations and control of the sewer system to the JPA in exchange for a cost sharing agreement and representation on the JPA. This arrangement is usually a group of other cities with adjacent collection systems and common interests. The use of this option would be challenging for SMCSO as it is structured as a Special District with services provided to other public entities through the use of service agreements.

Alternatives 1 and 2 provide the best options for the agencies' future City collection system services. Alternative 1 would allow SMCSO to continue to provide or expand maintenance and operations services to the City for their sewer collection system. With consolidation language included, the agencies could gradually transition to a consolidated system if the services by the SMCSO continue to be efficient/ effective and if there is a desire by both agencies to consolidate on a longer timeline.. This could ultimately lead to a consolidation or simply just an expansion

of the sewer collection services already provided by the SMCSD to the City, as needed and determined by the parties in the future.

Alternative 2 would result in the quicker transfer of sewer collection responsibility to the SMCSD, assuming that actions identified in an operational plan are achievable. Many of the issues addressed in the operational plan for consolidation are essential to the successful transfer of the City's collection system to SMCSD. The details contained in an operational plan would confirm the feasibility of consolidation and will further assist the City Council and the SMCSD Board in determining a path forward for the City collection system.

Alternative 3 is not considered viable since this could completely remove responsibility and control for the future operations from the City and could increase the costs to the rate payers for collections operations in order to cover the costs of the overhead and profit of a private company. It could also require the City staff to manage a long term contract depending on the outcome of the bid process. In addition, it may be very difficult to find a private company that wants to assume the City's system and operations given the age and small size of the system and the potential small return on investment.

Alternative 4 is not considered viable at this time as it would require the involvement of several other government agencies and would not significantly improve the existing service performance of either the City or SMCSD. The time and expense to develop and coordinate this effort would involve agencies who have not in the past expressed interest in or the need for this larger government organization option. Alternative 1 or 2 would not preclude the development of a JPA in the future.

Recommendation:

For the reasons addressed in this report, consolidation of the City sewer collection system into the SMCSD operations, Alternatives 1 and 2 described above, are feasible and either are reasonable next steps in the relationship between the City, SMCSD and its ratepayers. At a minimum, the current service agreement between the two agencies since 1953 needs to be updated, with a potential expansion of the current scope of services (Alternative 1). Should the Joint Sewer Committee not accept the recommendation to consolidate at this time (Alternative 2) and instead chooses Alternative 1, the resulting new service agreement could also include an option that allows the agencies to proceed with a consolidation in the future. While consolidation appears to be feasible based upon the analysis and results of this Study, additional questions and issues remain and will need to be addressed, evaluated, and resolved through the development of Phase II - Operational Implementation Plan.

Following the review of this report by the Joint Sewer Committee, a determination of the feasibility of sewer system consolidation should be made and a recommendation to the City Council and SMCSD Board of Directors by the Committee for approval to either proceed with the City Sewer System Consolidation, the Update/Expanded Service Agreement, Privatization or JPA Alternative. Should the agencies agree to proceed with the Consolidation Alternative, an Operational Plan or Phase II of Consolidation would first be completed in order for the implementation of the system consolidation to begin.

B. Introduction

The City of Sausalito (City) owns, operates and maintains an existing sanitary sewer collection system of pipes and four pump stations within the City limits. The City collection system connects to the Sausalito-Marin City Sanitary District (SMCSD) conveyance pipeline for conveyance, treatment and discharge into the San Francisco Bay by SMCSD pursuant to a 1953 services agreement. In 2007, the City was required to comply with the State Water Resources Control Board (SWRCB) Sanitary Sewer Waste Discharge Requirements (WDR) and to enroll its collection system in the California Integrated Water Quality System (CIWQS) and report any sanitary sewer overflows (SSO) into a State CIWQS database as well as comply with other management and operations and maintenance (O&M) requirements in the WDR.

In 2008 the Environmental Protection Agency (EPA) Region 9 issued an Administrative Order (AO) to the City, SMCSD, and the Tamalpais Community Services District (TCSD). Among other requirements, the AO required the agencies to reduce infiltration and inflow (I/I) to the collection system through a strong capital improvement program (CIP) and to administer a private sewer lateral (PSL) inspection and replacement program. The City and the District have each successfully operated their sewer collection systems for many years in compliance with the regulatory requirements and the AO.

As a relatively small municipal utility, the City faces challenges in hiring, training, and retaining employees. With regard to management of the sewer enterprise, over the past decade, the City has experienced fairly regular changes in staff at the field level. Often, new, relatively inexperienced staff are hired and must be trained in sewer maintenance, management, and sanitary sewer overflow response, in addition to other aspects of collection system field operations. In spite of the difficulties in recruiting and retaining entry-level workers, the City has continued to properly maintain the sewer collection system in accordance with the City's Sewer System Management Plan (SSMP). Further, the City has faced challenges with exceedingly high construction bids in the sewer capital program, as well as receiving a low priority with the State in their processing of the City's applications for State Revolving Fund (SRF), a lower cost of funding projects. As a result, CIP projects have been adjusted and reprioritized; over the past decade, projects to address the most severe defects and known areas of high inflow and infiltration (I/I) have been funded and completed, while lesser priority pipeline replacements have generally been deferred. The current replacement needs are funded through the current rate period increases on a pay-as-you go basis until 2023/24. Thereafter the City will need to establish a funding philosophy for necessary replacement.

Both the Grand Jury and Marin LAFCO have been interested in the provisions of wastewater services to County residents since the mid-1990s. They each evaluated these services and have recommended numerous times the need for functional or structural consolidations of wastewater services, especially in Southern Marin. In 2014, the Grand Jury, in a broad analysis of options for consolidation, the Jury received responses to the findings from the City and the SMCSD that these two agencies had for many years been pursuing functional consolidation. Their efforts included pump station maintenance, joint capital project efforts at the City pump stations, shared

training, shared use of equipment, joint programs for laterals and I/I reduction, shared meeting spaces, etc. These efforts were and have been ongoing between the two agencies for many years.

The City has always had a positive relationship with the SMCSD. SMCSD is a sole purpose special district formed pursuant to the 1923 Sanitary Districts Act and is responsible for the operations, management, and capital planning and implementation of wastewater collections, conveyance and treatment services for the City, Marin City, and for other unincorporated areas within the District's boundaries and floating homes,. SMCSD also provides wastewater conveyance and treatment service on a contract basis to TCSD which includes Muir Woods National Monument, and to the National Parks Service (Forts Baker, Barry, and Cronkite, Marin Mammal Center and Cavallo Point Resort). In recent years some senior staff in the two agencies have thought that it might be beneficial to City ratepayers to explore consolidating all aspects of the City's sanitary collection system with SMCSD. Consolidation would result in SMCSD fully owning and operating the City's sewer collection system. Consolidation could also take advantage of efficiencies that individuals in both agencies believe may be achieved, as well as addressing the previously mentioned recruitment issues that face the City and which SMCSD, as a single purpose agency, can more easily address. The current City of Sausalito Strategic Plan 2015 – 2020 (2018- 2020 update), Objective 4.2 Manage Sewer Infrastructure Program states:

- f) Retain a consultant to prepare a feasibility study of consolidation of City of Sausalito sewer enterprise with Sausalito-Marin City Sanitary District¹

The Strategic Plan also includes the re-initiation of the Joint Consolidation Planning Committee (Sewer Committee) and an action item to move forward with a formal Consolidation Feasibility Analysis. In 2019 both governing boards authorized the City to seek proposals for a joint study from qualified consultants and to share the cost of a Phase I Consolidation Feasibility Study. On January 28, 2020 a contract for the First Phase Feasibility Study was awarded by the Sausalito City Council to Causey Consulting.

1. Purpose of the Study

The City and SMCSD have jointly agreed to conduct a Feasibility Study to determine if there is a path forward for consolidation of the City sewer collection system with SMCSD. The purpose of this first phase study is to address whether the City and SMCSD should pursue consolidation of the City sewer collection system with SMCSD. If it is determined to be beneficial to the City as well as SMCSD, the City and SMCSD may jointly pursue Phase II to develop, identify and resolve issues regarding impacts of consolidation and develop an operational implementation plan as a path forward. The Phase II Study would identify the detailed aspects of consolidation which include the future operational approach to the City's collection system, the needed organizational adjustment to each entity, and any other operational challenges necessary for a consolidation.

This Study identifies the available alternatives to the two agencies for future sewer operations and potential benefits/challenges to the City and SMCSD as a result of reducing or eliminating the City's role in its sanitary sewer operations. In addition, the study is to also identify general

¹ City of Sausalito Strategic Plan 2015 – 2020 (2018- 2020 update), Page 37

impacts to SMCSD from an expansion of their services to City Customers. Based upon the information and findings from the Study, the agencies will determine if there is a path forward for consolidation and decide whether or not to include a Phase II Operational Implementation Plan in order to identify the steps and resources necessary to accomplish the desired alternative.

This Study will be supplied to the Sewer Committee, composed of two elected members from each agency, charged with representing their respective agency in identification and implementation of functional strategies and plans to improve efficiencies in sewer collection, conveyance, and treatment of wastewater. The Committee will review and forward final recommendations to their respective City Council or Board of Directors for next steps resulting from this Phase I Study.

2. Approach and Methodology

This Phase I Study reviews the efficacy of future alternatives to the operations of the City's collection system to include the operational and financial approaches to sewer collection systems management. This Study relies on the 2019 Sewer Rate Studies conducted individually by both agencies, the City's Comprehensive Annual Fiscal Report (CAFR), evaluations of consolidation by the Marin Grand Jury, past Marin County LAFCO studies and evaluations of sewer system operations. The 2019 Sewer Rate Studies were each prepared separately but on the same timeline and with input and coordination between the agencies.

C. Summary of Findings

1. The City has recently been required to modify its sewer collection system operating philosophy utilizing service contractors in order to continue compliance with regulatory requirements, citizen lawsuit settlement agreements and the City's own procedures stated in the Sanitary Sewer Management Plan (SSMP).
2. City Public Works staff are assigned to either the sewer enterprise or other public works functions. The many traditional services associated with public works functions require committed staff, who cannot be easily pulled off of these other functions to perform sewer enterprise functions. As a result, without dedicated sewer maintenance staff, the available sewer maintenance staff is relatively small. By comparison, SMCSD is a single purpose public utility agency dedicated to the sole function of providing operations and maintenance of its wastewater collection, conveyance, treatment and disposal system. With some level of consolidation, the District may be more efficient utilizing dedicated District sewer workers and equipment to perform sewer system cleaning in lieu of contract services from local service providers.
3. The City and SMCSD both utilize to varying degrees specialize contract services from local service providers to reduce costs and resources (specialized staff and equipment) needed to effectively and efficiently perform sewer system cleaning.
4. Each agency is challenged to maintain an optimum qualified staff level in spite of the challenge of training, maintaining, and retaining skilled certificated staff in a high cost area.

5. For over 60 years both agencies have very successfully utilized functional consolidation, coordination, cooperation, and mutual aid to continuously provide responsive and supportive operations, maintenance and delivering of capital improvement projects through an existing service agreement.
6. The two agencies have duplicative regulatory and administrative order requirements for similar functions creating a duplication of expenses and reporting for City ratepayers.
7. The City sewer collection system is older than SMCSD's and there is a remaining useful life difference between the agencies in the pipe used prior to the 1960s when old style terra cotta pipe material with poor joints and a shorter useful life than newer vitrified clay pipes since 1960 and continuous polyethylene pipes in use since the 1990s. SMCSDs sewers are younger and comprised of newer pipe material and joints. Additionally, many more of the City's sewers are located in narrow streets or easements in hillside areas where access for both maintenance and repair/replacement can be very difficult and expensive.
8. As a result of the history of the sewer system discussed in #7, the City sewer pipeline renewal and replacement program has been challenged by higher unit bids than would be expected in a more conventional sewer system, thereby requiring higher capital expenditure for pipe repairs and replacements than would be expected when comparing to industry averages.
9. The City has completed CCTV inspection of known problem areas within the City and has inspected 16% of the gravity sewer system since the AO was issued. Based on the results of the CCTV inspections, if more than 2 percent of the system requires replacement on an annual basis, the CIP will require additional funding.
10. The two agencies operate their sewer collection systems with sewer rates based on the full cost of service for the operations, maintenance, renewal and replacement and regulatory compliance.
11. The agencies have both recently completed and adopted five-year sewer rates for their respective sewer collection systems. Rates were adopted following proper Proposition 218 ratepayer notifications and hearings and coordinated between the agencies.
12. Both agencies operate with separate funding and timeline philosophies for the renewal and replacement (R&R) of their respective sewer system assets. The City currently uses pay-as-you go and SMCSD is using debt through borrowing from existing reserves with annual payments of interest and principals.
13. The City limits are fully coterminous within the SMCSD service area; and therefore, having the same ratepayers may ease requirements for the transfer of the collection system from the City to the SMCSD.

14. City residents and businesses annually pay two separate sewer service charge rates on property tax bills – one for the City collection system and one for SMCSD wastewater conveyance and treatment. SMCSD ratepayers in the unincorporated area of Marin pay a single sewer service charge on the tax bill that combines the conveyance and treatment with the supplemental sewer collection surcharge.
15. City customers do not have a single point of contact so may need to contact both the City and the SMCSD to resolve issues with service or to obtain clarity on their total annual costs for sewer service, which can create customer confusion.
16. Customers must deal with two separate elected governing boards to have a comprehensive involvement in their sewer program/issues.
17. Long range sewer collection system program planning is currently split between the two agencies and can be at odds if not jointly agreed upon in advance.
18. There are duplicative expenses from the operations of the two separate agencies; consequently, consolidation may allow for a greater portion of the annual sewer rate to be used for the City sewer pipeline renewal and replacement program.
19. The current organizations of both Public Works and the SMCSD will need to be reviewed and assessed to determine future organizational structure, staffing needs, and qualifications should the consolidation alternative be pursued.
20. City will need to evaluate the financial impacts on the General Fund and internal service funds prior to a decision to consolidate the City sewer collection system..

D. Sanitary Sewer System Descriptions

1. City of Sausalito - Sanitary Sewer Collection System Description

The City of Sausalito currently uses City employees and service contract resources to operate and maintain its sanitary sewer collection system, which consists of approximately 20 miles of sanitary gravity sewer pipes, four pump stations and about 1.0 miles of force mains from City pump stations². Pipes in the City collection system range from 4-inch to 18-inch diameter with approximately 25 percent of those pipelines being installed in the 1940s and 50s, 60 percent in the 1960s and 1970s, 14% percent in the 1980s and 90s and 1% from 2000 to the present³. The average age of the City collection system is between 45 and 55 years. The City has replaced approximately 9600 linear feet and repaired or replaced 16% of the gravity pipes and repaired or replaced 43 manholes of the 650 in the sewer system (6.7%) since approximately 2005.

² State of California CIWQS Database information dated August 8, 2019

³ City of Sausalito CIWQS Operation Performance certified information dated 8/18/19

When needed, City staff are supplemented by local sewer maintenance contractors. The entire system is cleaned twice annually, with some pipes cleaned on a quarterly “hot spot” basis. Cleaning consists primarily of hydrojetting, with some lines cleaned via machine rodding, and ten lines currently cleaned via hand-rodding. The City currently contracts with SMCSD for the operations and maintenance (O&M), participation in capital planning, and some improvements to the four sewage pump stations owned by the City. The State Water Resources Control Board (SWRCB) requires the City to have a SSMP defining the programs supporting the sanitary sewer operations approved by its Council, to report any sanitary sewer overflows (SSOs) to the State database, to audit its SSMP regularly, and readopt the SSMP every 5 years – the most current SSMP approved by the City Council is dated August 2019. All sewage collection from the City service area is discharged into the SMCSD conveyance system and transported to the SMCSD for treatment and discharge into the San Francisco Bay.

The City sanitary sewer collection system operations program includes the following services to City residents and businesses:

Pipe cleaning/maintenance	Capital Planning
Pump Station O&M (by SMCSD)	Annual budgeting
Lateral Inspection Program	Rate setting
Emergency response to SSOs	Permit compliance
New connection permitting	Environmental compliance
Pipeline condition assessment (by contract)	Public outreach

The City also must operate its sewer collection system according to the State of California Waste Discharge Requirements (WDR) that have been in effect since 2006. In addition, the City must also comply with a 2008 EPA Region 9 Administrative Order. Among other requirements, the AO requires the City to reduce inflow and infiltration (I/I) to its sanitary sewer system, to develop and maintain a private sewer lateral (PSL) inspection and replacement program and annually report the progress being made in these required areas of operation. The manhole repair and replacement program is a direct result of these requirements.

2. Sausalito-Marin City Sanitary District

a. Conveyance and Treatment System Description

SMCSD is responsible for wastewater conveyance, treatment, and disposal to all residents and businesses within the SMCSD service boundaries by operating and maintaining its conveyance system that transports sewage via pump stations and pipelines from most of the TCSD; the City; Marin City, and other unincorporated areas of Marin County within the District ; and from the Golden Gate National Recreation Area (GGNRA) to the SMCSD Wastewater Treatment Plant (WWTP).

The District’s conveyance system serves a population of approximately 18,000 consisting of approximately 4,000 in the Marin City and unincorporated areas including the floating homes, approximately 7,000 in the City and approximately 7,000 in TCSD. The District’s system includes approximately 7.4 miles of gravity sewer pipes, 1.53 miles of gravity interceptor, 3.7 miles of force mains, and 7 pump stations. An additional 4 pump stations are owned by the City

but operated and maintained by the SMCS D under contract with the City. SMCS D is responsible for the operations, maintenance and capital improvements of the sewer collection system in Marin City and other unincorporated areas of Marin within SMCS D. The SMCS D conveyance and treatment system, although directly connected to and an integral part of the City and Marin City sewer collection systems, it is not a part of the Phase I Consolidation Feasibility Study.

The regulatory requirements described for the City's system operation above are also applicable to the SMCS D collection system. SMCS D has separate but identical responsibilities regarding the WDR, SSMP development and implementation, and compliance with the 2008 AO.

b. Marin City Collections System

The Marin City and other unincorporated areas within the SMCS D's collection system consists of approximately 6.4 miles of sewers. Pipes in the collection system range from 6-inch to 16-inch in diameter with approximately 5% of those pipelines being installed in the 1950s, 60% in the 1960s and 1970s, and 35% in the 1990s⁸. The average age of the pipe system is now approximately 25 years subsequent to SMCS D's Marin City Sewer Rehabilitation Project in 2012. A total of 2.31 miles were rehabilitated in this project, or about 36% of the entire collection system. Approximately 78% of sewers are located in the public right-of-way with the remaining 22% located in easements⁹. A portion of the pipelines located in sewer easements are not accessible by motorized sewer-cleaning equipment and requires cleaning by hand-rodding. Collection system maintenance is conducted by the SMCS D and the entire system is cleaned once every three years utilizing services contractors. . All cleaning is conducted in three separate sewer basins with a single basin cleaned each year. In addition, an annual high frequency ("hot spots") cleaning program increases the total annual cleaning production equivalent to the total collection system length.

3. Collection System Comparison

For purposes of understanding the agency's physical sewer collection system operations, Appendix 1: Facility Comparisons provides a side-by-side comparison of the collection assets and performance results obtained from the 2019 Rate Studies and each agency's annual Operational Performance certified reports in the CIWQS system by each agency's wastewater discharge identification number (WDID).

In general, the City collection system program includes approximately twice the number of sewer connections and three times the length of pipe of the SMCS D (Marin City) sewer collection system. The City contains predominately single family service connections where the SMCS D (Marin City) is mostly multi-family connections with denser population areas than the City. Additionally, the age of the two systems are different especially for pipe installed prior to 1960 which generally has a shorter useful life than pipe made since 1960. While 25% of the City pipe was installed pre-1960, the SMCS D (Marin City), has only 5% of its sewer pipe that was installed prior to 1960. This relates to the average useful life projected by the pipe manufacturers of between 50 and 75 years prior to 1960 and for up to 100 years for pipes manufactured and installed after 1960. In general, the City has more pipe, more difficult terrain, and an older system, with an average pipe age of between 45 and 55 years compared to

⁸ SMCS D CIWQS Operation Performance certified information dated 3/24/20

⁹ Ibid

approximately 26 years in SMCS D's. The City has recently proposed a 2% per year replacement philosophy for the future and plans to fund this program using funds generated from the rate increases following a pay-as-you-go approach while SMCS D is borrowing from reserves to fund pipe replacement. The City program and associated funding mechanism may need to be revised. At a minimum prior to a consolidation, a comprehensive condition assessment of the full City sewer collection system should be performed in order to understand the scope, cost and schedule of needed repairs and replacements of the City's system.

In regard to system cleaning, the City cleans its sewer system twice per year (or more including "hot spots" or also called high frequency) where SMCS D cleans the collection system once every three years. In addition, approximately a third of the City system is in easements and backyards where SMCS D has only 10% in difficult easement areas. The City cleaning has been significantly increased in recent years to assure that the number of SSOs is reduced. This however has been accomplished without a full condition assessment of the sewer system since prior to the AO. Condition assessment would better inform and define (i.e., spread out) the actual cleaning requirements of the system as well as provide needed information to assist the planning priorities for pipe replacements. The City currently plans to initiate a full condition assessment program in 2020/21 that will complete in 3 years.

The City is in the process of replacing its Nexgen computer maintenance management system (CMMS) system with Cityworks. City staff are making corrections to GIS mapping and populating Cityworks with the most current cleaning schedule. After this work is completed, the City will begin adding cleaning results and CCTV data as it is obtained, to the database to support future maintenance activities. The condition assessment program should also inform revisions to the cleaning requirements and schedules once the pipes have been inspected.

The City's current GIS database reports total gravity pipe length that is less than previously certified in CIWQS. Some of this change is due to the correct allocation of private lateral footage to what was previously designated as City-owned pipeline footage. As the City continues to add or subtract pipes to its inventory, the GIS and CIWQS pipe footage must be adjusted accordingly and certified in the CIWQS system.

The City does not regularly conduct pipeline condition surveys to assist in determining cleaning frequencies and replacement priorities. The most recent CCTV program occurred in 2016 and included CCTV inspection of approximately 17,120 linear feet (3.2 miles) or 16% of the gravity sewer system. The results from this CCTV program were used to prioritize pipes in need of repair or replacement. However, since that time, CCTV inspection has been handled on only a case-by-case and incident-by-incident basis.

4. Capital Program Evaluation

The City Rate Study included estimated capital replacement needs during the five year rate period. The five year rate proposal includes a general replacement philosophy for replacement of 2% of the sewer collection lines per year. Table 1 includes the capital expenditures from the Rate Study. Since the completion and adoption of the rate program in June 2019, the staff has reviewed and developed revisions to the proposed capital replacement expenditures as shown in

Table 2. These revised expenditures assume the replacement of 2% of pipe length per year or full replacement in 50 years and the completion of a full condition assessment of the sewer system in three years beginning next year. The City anticipates spending \$5,700,000 from 2020/21 to 2023/24 for pipe replacement, including the full condition assessment of the sewer system thru 2023/24. This work will be funded from increased rates and available reserves in the City sewer fund. During this same period, SMCSD estimates its smaller collection system expenditure for replacement will be \$5,335,000¹⁰. In addition, SMCSD is funding all these collection improvements from reserves and paying the treatment fund interest at 3.4% annually for these expenditures. SMCSD expects to complete a full replacement of the Marin City collection system in the very near future.

The City has been relying on a combination of past debt funding and rate reserves to fund the necessary replacements. The City has since 2010 relied on a loan from the State of California and in 2015 the issue of sewer revenue bonds to fund system replacements. As of 2020/21, all of these loan funds will have been expended and only sewer fund reserves will be available for funding the remainder of the improvements through 2023/24. During the next rate evaluation in Spring 2024, the City will need to determine how future replacement expenditures will be funded.

Table 1: City Capital Improvement Expenditures and Funding Sources (\$)¹¹

<u>Expenses</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
Annual Expenses	1,546,200	1,460,300	944,900	859,000	859,000
Funding Sources					
Bond Reserves	1,411,200	968,801	0	0	0
Reserve funding	135,000	491,499	720,226	359,736	144,563
Rate revenue			224,674	499,264	714,437

Table 2: Revised Capital Improvement Projection, April 2020 (\$1,000)¹²

<u>Expenses</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
Pipe Replacement	2,200	690	1,485	1,350	1,375
CCTV Assessment	0	100	350	350	0
Annual Expenses	2,200	790	1,835	1,700	1,375

The expenditures in Table 2 are subject to revisions during the annual budget considerations and may also be revised as a result of the new condition assessment findings each year.

¹⁰ Sausalito-Marín City Sanitary District 2019 Sewer Rate Study, HF&H Consultants, LLC., Tables 5 and 9

¹¹ 2018 Sausalito Sewer Rate Study, Table 8, NBS

¹² April 14, 2020 Email from Vivian Housen

E. Financial Background and Analysis

The sanitary sewer collection systems of both the City and the SMCSD are operated as proprietary enterprise funds in each agency's financial accounting systems, requiring that customers pay their fair share of the annual operating costs for regular operation and maintenance, renewal, and replacement of assets, and compliance with all legal requirements.

SMCSD operates its enterprise accounting system with two sub funds for conveyance and treatment (applicable to all service area customers including TCSD), and a separate collection system surcharge for the Marin City/ Floating Homes/Unincorporated area of the SMCSD. This additional surcharge pays for all of the operating, capital, and legal requirements placed on the collection system operation. This latter surcharge is directly comparable to the City's annual sewer service charges.

The City operates the sanitary sewer collection system financial accounting as a proprietary enterprise fund within the City financial system. The sewer service fund accounts for all sewer related revenues and expenses to provide the sewer services including, but not limited to, administration, operations, capital improvements, debt service, maintenance, financing, billing, and collections. Proprietary fund operating revenues, such as charges for services, result from transactions associated with the principal activity of the fund. Operating revenues and expenses generally result from providing services and goods in connection with a proprietary fund's main operations – sewer service. The main operating revenues of the Sewer Enterprise Fund are annual sewer services charges to residences and businesses. The main operating expenses for the enterprise funds and internal service funds include administrative services, professional services, repairs and maintenances, salaries and benefits, utilities, depreciation, amortization, and other operating expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses on the sewer fund general ledger.¹³

The City Sewer Enterprise Fund operates with four sub funds for tracking all revenues and expenses. The following are the four sub funds descriptions along with a statement of the reserve policies established by the City Council as of the date of this study.

Sewer Operating – This sub fund tracks all normal operating revenues and expenses for the daily operation of the sewer program. Costs include staff salaries and benefits in support of the sewer operations including both full time positions and shared staff positions, operating expenses normal to a sewer operation, and administrative overhead. Funding for operations are from annual service charges, interest and other related revenues. The City Council has established an operating reserve target of 25% of the annual operating expenses budget.

Capital Fund – This sub fund is used to manage the capital improvement program projects for the expansion and renewal and replacement of sewer related assets such as gravity and pressure pipes and pump stations. Funding for this sub fund comes from capacity charges, lateral services support, bond/loan reserves and a portion of the annual

¹³ City of Sausalito Comprehensive Annual Financial Report 2018/19, Page 8, 31 and 38

sewer service charges. The City Council has established a capital reserve target of 3% of net depreciable capital assets of the sewer utility which as of June 30, 2019 was \$9,613,234 therefore the reserve target is \$288,397.

Debt Service

The City has previously relied on borrowing to fund capital renewal and replacement (R&R) costs for sewer system assets and facilities. On September 28, 2011 the City entered into a SWRCB Project Finance Agreement in the amount of \$1,036,480 to replace sewer lines and build a new grease interceptor. The term of the agreement was for 20 years and requires principal and interest payments annually of approximately \$66,840 through September 2033. The interest rate on this loan is 2.6% on the outstanding principal amount. This loan requires the City to establish rates and charges sufficient to generate net revenues equal to at least 1.1 times the annual debt services.¹⁴

In 2015, the Sausalito Financing Authority (SFA) on behalf of the sewer program issued the 2015 Sewer Revenue Bonds in the amount of \$6,750,000 to finance the acquisition and construction of sewer improvements and facilities. This issue requires semiannual interest payments and an annual principal payment. These bonds are financed through pledges of the net revenues of the Sewer Enterprise Fund and are expected to be fully amortized in July 2044. The next five years of bond payments are detailed in Table 3 below.

The total annual debt payments from the sewer fund for the current five year rate period are detailed in the last row of Table 3.

In addition, both the loan and the revenue bonds are also required by the terms of the issues to establish minimum coverage ratios and an annual debt payment reserve at least equal to the annual debt principal and interest payment. This is intended to assure the enterprise is able to fully fund the annual principal and interest payment and not be impacted by revenue shortfalls. These two reserves, if not utilized during the term of the issue, can be used to make the final payments on the issues. To date the City has fully funded these two debt reserves and expects to do so for the term of the current 5 year rate period. If consolidation is determined to be viable, then these debt reserves along with the pledges of rate revenue would be required to move to SMCSO. This would also increase the debt capacity of the SMCSO based upon these currently adopted rates and reserve values.

¹⁴ City of Sausalito Project Finance Agreement, Amendment No. 1 Agreement No. 11-824-550.

Table 3: Summary of Future Debt Service Payment Requirements (\$)¹⁵

<u>Financial Vehicle</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
SWRCB SRF Loan					
Principal	45,843	47,035	48,258	49,513	50,800
Interest	21,530	20,338	19,115	17,860	16,573
Total SRF Payment	67,373	67,373	67,373	67,373	67,373
2015 Bonds					
Principal	260,215	262,815	265,341	267,791	267,166
Interest	97,816	95,341	92,791	90,166	87,466
Total Bond Payment	358,031	358,156	358,132	357,957	354,632
Total Annual Payments	427,545	427,804	428,004	428,054	427,704
% of Sewer Budget	18.0%	17.7%	15.8%	14.1%	12.9%

Over the approved five year rate period, the debt service payments average 15.5% of the annual sewer collection system operating expenses.

Reserve Funds

The City Council has established separate reserve funds for each of the financial sub funds in the sewer enterprise fund. The City Council's established philosophies for reserve funds are:

- Operating Reserve – 25% of the budgeted annual operating expenses.
- Capital Rehabilitation and replacement – 3% of net depreciable capital asset
- Debt Reserve – equal to 10% of the annual principal and interest payments.¹⁶

These annual anticipated reserve fund balances from the City Sewer Rate Study through 23/24 are displayed in Table 4 below. The operating, capital and debt service reserves below, if a consolidation is pursued, would all need to be transferred along with the sewer service charges to the SMCS D.

The Sewer Fund also contributes, based upon a proportionate share of sewer salaries to full City salaries, to internal service funds for City employees health and welfare benefits (OPEB and EE Benefits) and retirement benefits (UAAL). These internal service funds are used to account for the financing of goods and services provided by one department to other departments of the City on a cost reimbursement basis.¹⁷ These reserve funds are commingled with other City supported employee related reserves in the general fund and will all need to be evaluated should the City determine to implement the consolidation to

¹⁶ City of Sausalito Sewer Rate Study, NBS dated June 2019, Page 5

¹⁷ City of Sausalito Comprehensive Annual Financial Report 2018/19, Page 99.

determine if any transfers associated with staffing transfers for consolidation with the SMCSD. This determination would be necessary only if employees were ultimately transferred from the City to the SMCSD as these internal benefit reserves could necessarily impact the long-term employee obligations for each of the agencies to their employees.

Table 4: Summary of Projected Sewer Reserve Fund Balances/Internal Service Funds (\$)¹⁸

	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24
Sewer Program					
O&M Reserve	486,000	499,000	513,000	527,000	531,381
Capital Reserve	934,958	967,026	597,736	376,463	231,900
Debt Reserve	368,402	368,402	368,402	368,402	368,402
Total Projected	1,789,360	1,834,428	1,479,139	1,271,865	1,131,683
Internal Service Fund Reserves	As of 6/30/19				
OPEB	1,087,830				
EE Benefits Fund	353,703				
Retirement/UAAL	1,788,163				
Workers Comp	863,219				
Vehicle Replacement	1,067,853				

F. Sanitary Sewer Rates Analysis

The City has regularly evaluated the costs for sewer system operations and the charges to City rate payers include both an annual flat charge and volumetric rate for collection system operations by the City. SMCSD charges city ratepayers a separate flat wastewater fee for conveyance, and treatment. Table 5 presents the 5 year adopted sewer services charges for the City collection system. Both agencies charge a volumetric rate based upon either the winter water consumption or the annual water consumption for commercial/industrial customers for their services. These two annual charges are separately collected on the County Property tax rolls. For City taxpayers, a City sewer collection charge and the SMCSD conveyance and treatment charge show on the customers property tax bill, while for SMCSD taxpayers a single charge is found on the property tax billing which includes the total base treatment plus a surcharge for Marin City customers for collection.

The SMCSD annually imposes a flat charge to each parcel in the City for the services they provide for conveyance and treatment, and similarly imposes charges on parcels in Marin City areas and to TCSD that they serve. They have established two separate flat charges, one for conveyance and treatment and a separate surcharge for the operation of the sanitary sewer collection system in Marin City and other unincorporated areas. Both the City and SMCSD

¹⁸ City of Sausalito Sewer Rate Study, NBS dated June 2019, Figure 4

completed rate studies in June 2019 and have adopted five year rate increase programs stated in Tables 5, 6 and 7 below. The average volumetric charge at each agency is based upon the average winter water consumption by customer class annualized over twelve months. The actual estimated consumption by residential class is provided to each agency by the Marin Municipal Water District during the annual Spring rate preparation period.

Table 6 provides the annual collection system surcharge applied to each SMCS D residential customer class by EDU in Marin City and other unincorporated areas within SMCS D's boundaries.

Table 5: City of Sausalito Approved Collection System Sewer Service Charges (\$)

<u>Discharger Category Flat Charge per EDU</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
Single Family	624.24	649.21	675.18	702.10	730.27
Single-Family Attached	339.22	352.79	366.91	381.58	396.84
Duplexes	339.26	352.83	366.94	381.62	396.89
Multiple Family	300.41	312.43	324.93	337.93	351.44
Volumetric Charge/CCF	1.09	1.13	1.18	1.22	1.27
Commercial/Industrial					
Fix Charges/EDU	561.67	584.14	607.51	631.81	657.08
Volumetric Charge/CCF	1.09	1.13	1.18	1.22	1.27
Average Annual Volumetric Charge					
Single Family	83.94	87.02	90.87	93.95	97.80
Single-Family Attached	41.85	47.33	49.43	51.11	53.20
Duplexes	41.86	47.33	49.43	51.11	53.20
Multiple Family	37.08	41.94	43.80	45.28	47.14
Total Annual Charge					
Single Family	1575	1643	1708	1766	1827
Multiple Family	1108	1147	1193	1232	1273

Table 6: SMCS D Approved Sewer Service Surcharge – Marin City/Unincorporated (\$) ¹⁹

<u>Discharger Category</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
Single Family	192	198	220	291	387
Multi-Family	169	174	194	256	341
Floating Home	144	148	165	218	290
Non-residential	192	198	220	291	387

¹⁹ SMCS D Sewer Service Charge Study, HF&H Consultants, LLC., July 1, 2019

In addition to the collection system charges, the SMCSD annually charges all service area customers (City, Marin City/Unincorporated , Floating Homes and TCSD) a single conveyance and treatment charge based upon the equivalent dwelling units stated in Table 7.

Table 7: SMCSD Approved Sewer Service Charges – Conveyance & Treatment/EDU (\$)²⁰

<u>Discharger Category</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
Single Family	866	906	942	970	999
Multi-Family	771	793	824	849	875
Floating Home	659	683	710	731	753
Non-Residential	866	906	942	970	999

Table 8 presents a comparison of the total average annual collection system charges for single family and multiple family residential customers in the City and in the Marin City collections areas for the next five years. Table 8 shows that the City SFR increase over the five year rate period is 16% while Marin City increases 31.0%. On the other hand, Marin City’s MFR rate increase 29.4% while the City’s MFR only increases by 14.9%. City sewer service charges for both SFR and MFR exceed the Marin City rates by 143% and 114%.

The charges for floating homes and commercial and industrial customers follows a similar pattern based on the adopted rates above in Tables 5 to 7.

²⁰ Ibid

Table 8: Comparison of Total Annual Sewer System Collection Charges

Fiscal Year	Sausalito, SFR	Marin City, SFR	Percentage Above Marin City	Sausalito, MFR	Marin City, MFR	Percentage Above Marin City
19/20	1575	1058	148.9	1108	940	117.8
20/21	1643	1103	149.0	1147	966	118.6
21/22	1708	1162	147.0	1193	1018	117.2
22/23	1766	1261	140.1	1232	1105	111.5
23/24	1827	1386	131.8	1273	1215	104.8
Average	1704	1194	142.7	1191	1049	113.5
% increase in 5 yrs.	16.0	31.0		14.9	29.3	

G. Evaluation of City Sewer Fund Financial Operations

A City SFR customer pays approximately 142% of a similar customer in the Marin City area. A review of the 2019 City Rate Study provides some insights into the differences in the two charges. Table 9, below, provides a breakdown of the estimated operational expenses for the City collection system rates that were used as the basis for the rate evaluation. Table 10 indicates the annual percentage of each component and an average over the five year rate period. The largest portion of the City’s annual expenditures are for salary and benefits and the administrative overhead portions of the City sewer budget. On average, 42.5% of the costs for City customers relates to salaries and general fund payments of overhead while only 31.6% on average relates to the regular line item expenses supporting staff in the sewer system operations and maintenance. Debt service and capital expenditures average 25.9 % of the annual expenses of the sewer collection system.

Going forward, no matter what future sewer service provision alternative is selected, will require a thorough review of the two largest categories of the budget and should result in a formal statement of the underlying expenditure areas and their impacts on the City’s financial position. In addition, if consolidation is pursued, then the City must determine the financial impacts that would result to both its staff and the general fund support as well as the need for expanded staffing and expenses at the SMCS D in order to fully operate the City collection system.

Review of the operational expense projected budgets indicates several duplications of expense that would not be required by a consolidation as these expenses are generally flat costs per agency and would not apply to the City rate following a consolidation. Expenses like MERA charges, WDR permit fees, reductions in training and workshops, no dues and subscriptions, reduction in uniform costs depending on numbers of employees transferred to SMCS D, possibly reduced overhead charges, and reduced SSMP management program expenses for a single SSMP. These changes and duplicate operating expenses could result in expenditure reductions of between approximately 4% and 7.5%. Depending on how duplicate staffing and overhead expenses are resolved, it could result in an additional 7.5% to 15% or a combined 11% to 23 % reduction the annual operating expenses for City sewer collection system each year. Any savings

should be used to reinvest in capital R&R improvements, upgrade equipment and/or reduce the effect of inflation on rates. However, the staffing and overhead reductions will also need to be evaluated against any increased expenses at the SMCSD to assume responsibilities of the collection system.

One important caveat to the potential expenditure reduction percentages relates to the condition of the City sewer collection system and its current age and lack of recent condition assessment. It can be anticipated, considering that so much of the City's pipe system was constructed prior to 1960, that an expanded or accelerated sewer capital replacement program may be identified as a result of the condition assessments. City pipes are likely at, or will soon be at, the end of their anticipated useful lives and may require more aggressive capital spending than currently proposed. The City has recognized this and is modifying its capital plan to adjust to this concern in Table 2.

Table 9: Sausalito Rate Study Financials (\$) ²¹

<u>Use of Funds</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>
Salaries and Benefits	885,219	908,759	932,919	957,725	983,190
Operations Expense	827,182	850,343	874,152	898,628	923,790
Admin Overhead Charges	231,300	237,776	244,434	251,278	258,314
Debt Service	427,804	428,004	428,054	427,954	427,704
Capital Expense	0	0	224,674	499,264	714,437
Total Estimated Annual Sewer Fund Expenditures	2,371,505	2,424,880	2,704,234	3,034,850	3,307,436

Table 10: Breakdown of Annual City Sewer Budget by Expense Category (% of Total Annual Expenditures)

<u>Expense Category</u>	<u>FY19/20</u>	<u>FY20/21</u>	<u>FY21/22</u>	<u>FY22/23</u>	<u>FY23/24</u>	<u>Average Percent</u>
Salaries and Benefits	37.3	37.5	34.5	31.6	29.7	33.7
Operations Expense	34.9	35.1	32.3	29.6	27.9	31.6
Admin Charges	9.8	9.8	9.0	8.3	7.8	8.8
Debt Service	18.0	17.7	15.8	14.1	12.9	15.46
Capital expense	0.00	0.0	8.3	16.5	21.6	10.4

H. Future City Collection System Service Alternatives/Options

There are several alternatives available to the City, for future sewer service collection operations, including:

Alternative 1: Updated and/or Expanded Service Agreement

²¹ 2018 Sausalito Sewer Rate Study, NBS

- Alternative 2: Consolidation
- Alternative 3: Privatization
- Alternative 4: Joint Powers Agreement (JPA)

The following provides background on each of the four alternatives along with the likelihood of future operational success.

Alternative 1: Updated and/or Expanded Service Agreement

The City could retain ownership of the sewer system assets and associated regulatory liabilities as currently provided pursuant to the 1953 service agreement but could transfer all or most remaining sewer collection system operations, maintenance, CIP, and R&R activities to the SMCSO or other service providers. There are two options available for this alternative:

Option 1A Revise the Service Agreement. The City could determine to continue operating the collection system as they have in the past relying on the SMCSO for only conveyance, treatment and pump station maintenance. However, if this option is determined to be the path forward, then the current service agreement between the City and the SMCSO which dates to 1953 is in need of revision that recognizes the current relationships between the agencies and addresses the current environment that collection system operations and management that these utilities must operate under. This Option would not preclude the City from continuing to contract with service providers when staff are unable to handle all sewer required operations.

Option 1B – Updated and Expanded Service Agreement. This Option would involve revising the 1953 agreement to include expansion of services provided by the SMCSO for some or all of the remaining City collection system operations. It could also serve as an option/pathway to a future consolidation if determine feasible at some future date and time. The benefit of this option would expand the current service provisions by SMCSO for things like line cleaning, condition assessment, capital planning and project management and/or overflow emergency response. This option would not relieve the City of the responsibility for regulatory compliance and reporting under the current WDR and AO unless consolidation was ultimately completed.

Both of these options requires the City to retain ownership of the collection system and continue to maintain a level of staffing and management oversight of a new agreement. It would also mean that the City would continue have continuing responsibilities for the R&R of the assets, either continuing the need for outside professional capital support or hiring additional engineering staff to pursue the sewer collection system capital needs. Depending on the service expansions to be implemented, this could require City employees to possess different management skills in order to select, oversee and manage these service expansions in the updated agreement. While it would not require that the City have and maintain large and expensive equipment, the SMCSO might have more aggressive R&R philosophies/requirements that could increase rates to City rate payers in the future.

Alternative 2: Consolidation

This Alternative transfers the City's sewer collection system operations, responsibilities, and functions, including all supporting financials to the SMCSO. As previously stated, SMCSO is a California special district formed for the sole purpose of providing wastewater collection, conveyance and treatment, so it's highly skilled in the operations and maintenance of wastewater systems, programs, and infrastructure. It eliminates the operational risk and liability to the City which results from regulatory enforcement, expanding and changing regulatory requirements by the State, or private citizen lawsuits under the Clean Water Act. This Alternative transfers all revenues, expenses, reserve funds and contractual obligations from the City to SMCSO who become solely responsible for all future operations, maintenance, renewal and replacement, capital planning and/or environmental compliance. Upon consolidation, the SMCSO Board would have the complete authority to establish budgets, capital replacement schedules, and rates and surcharges for the City sewer collection system program. SMCSO as a single purpose agency for the rate payers would provide all services related to the sewer collection operations, conveyance, treatment and rates and charges.

It is anticipated that SMCSO would operate the City sewer collection system program similarly to its current and historical operation and funding approach utilized for the Marin City collection system. The City would, as a condition of consolidation, need to require SMCSO to establish a separate cost center used to determine the annual rate surcharge for operations, maintenance and capital improvements of the City sewer collection system. This Alternative eliminates the duplicative regulatory requirements for WDR plans (SSMP, OERP, WQMP), reporting under the AO, annual duplicative operating expenses, and would make a single agency responsible for collection system planning and for CIWQS reporting that are now the City responsibility. It would also eliminate the need for the City's coordination with the SMCSO for things like pump station operations and replacement, joint capital program project management, and coordination.

Because the City limits are currently fully within the service boundaries of the SMCSO, this consolidation may only require a LAFCO authorization to expand its power for collection system operations under the Sanitary Districts Act of 1923, the SMCSO's enabling legislation. Upon the completion of a complete consolidation, current rate payer confusion over roles and responsibilities of the two agencies for the sewer service would be significantly reduced and eventually eliminated. The sewer service charge would be consolidated with a surcharge for collection so that only one agency charge would be present on City property tax bills, reducing customer questions.

Alternative 3: Privatization

The City could consider selling its sewer collection system assets to a private company that specializes in sewer collection system operations. This would be accomplished by a request for proposals (RFP) and formal bid allowing proposers to evaluate the current conditions of the sewer system and the potential for profit from a collection system acquisition. This might result in a cash payment or annual annuity to the City for all rights and responsibilities to the City sewer system. This alternative would completely transfer the legal responsibility or regulatory enforcement liability from future operations of the sewer system from the City. This has the

potential to increase (or decrease) total operating costs to City rate payers to pay for profits to the private company, or in the future if there are performance issues associated with the private firm, then the City will incur significant transitional costs in order for the system to revert back to City. It is anticipated that any private company agreeing to privatize the collection system would first require a complete condition assessment of the system to understand the true condition and future capital needs of the system. CCTV inspection results, if not favorable, could result in a significant increase in capital expenditures in the short term that could increase sewer rates or could lead to a decision not to purchase the City collection system as there may not be an adequate rate of return for the private company shareholders. This Alternative would also require City staffing to manage the contract, especially as to customer issues and complaints not addressed by or with the private company.

The alternative is likely to increase costs for rate payers and would eliminate the City's direct involvement in the sewer collection system program operations but would not completely remove the City's risk and liability. Additionally, due to the small size of the system, age of the pipes, and system condition, the City might have a difficult time interesting private firms in this alternative.

Alternative 4: Joint Powers Authority (JPA)

This alternative would have the City enter into an existing JPA relinquishing operations and control of the sewer system to the JPA in exchange for a cost sharing agreement and representation on the JPA. This arrangement is usually a group of other cities with adjacent collection systems and common interests. The use of this option would be challenging for SMCSO as it is structured as a Special District with services provided to other public entities through the use of service agreements.

Alternative 4 is not considered viable at this time as it would require the involvement of several other government agencies and would not significantly improve the existing service performance of either the City or SMCSO. The time and expense to develop and coordinate this effort would involve agencies who have not in the past expressed interest in or the need for this larger government organization option. Alternative 1 or 2 would not preclude the development of a JPA in the future.

Alternatives Discussions

As a result of this Phase I Feasibility Study it does appear that a path forward for the future relationship of the two agencies regarding the City collection system is warranted and necessary even if only for the development of a revised operating agreement. If it is determined that a new agreement or expanded SMCSO services or consolidation is warranted, then a Phase II Study and Operational Implementation Plan should be developed to further define and support decisions for an agreed path forward. The Phase II study and Operation Implementation Plan would need to be scoped to properly address the issues and requirements to be able to full implement any of the Alternatives. The descriptions for each Alternative below identify the efforts that would be necessary in the Phase II Study to assist the elected officials in forming a clear policy path forward for the City collection system management and operation.

If it is determined that the only path forward currently is determined to be Alternative 1, Option A, Revised Service Agreement then the two agencies should determine the issues that would need to be addressed during the negotiations and utilize the Phase II study to define, evaluate and recommend language for the new operating agreement and establish a timeline for these negotiations.

If Alternative 1, Option B is determined feasible, it would require time to negotiate a new agreement and to evaluate any additional services that might be transferred to the SMCSO under the revised and expanded agreement. This negotiation time would require the City to continue to fully operate its sewer system during the time required for negotiation and approval of the revised agreement. This time could be used to better understand and evaluate the condition of the City collection system, to evaluate the staffing and operational changes necessary at both agencies from expanded services and to develop an operational implementation plan addressing any issues that would need to be completed in the new service agreement. Many of these issues have been identified below in the section I: Issues to be Addressed if Phase Two Authorized.

The structural consolidation alternative results in the operation and management of the sewer collection program by an elected Board of Directors whose mission, goals and performance are the effective and efficient operations and management of wastewater systems. The long tenured SMCSO staff has the experience and qualifications to effectively manage a sewer collection system and are not needed to respond to other public works related issues and problems which can impact sewer program performance. This would also remove all legal, regulatory, financial and planning responsibilities for the collection system from the City Council. However, it would also be necessary for the two agencies to come to an arrangement on the disposition of sewer related equipment and the use of shared facilities since SMCSO does not currently have adequate sites to house collection related equipment.

The consolidation or transfer of some service provisions or the transfer of the full sewer collection system operations from the City to SMCSO would require discussions and similar resolutions of agreement and acceptance by the City Council and SMCSO Board of Directors. Prior to a resolution for future services and a new agreement and an operational implementation plan describing the details of how the consolidation and transition takes place would need to be jointly developed. This operational implementation plan would include transition or expansion of staff at the SMCSO, disposition of equipment, capital assets and debt. The operational implementation plan would provide direction, procedures and establishment of the conditions and schedule for a transition of the City sewer collection system to SMCSO. It would include the change of control notifications and requirements at other government entities. Some of these government entity notifications will vary depending upon the path forward especially by either Alternative 1B or 2 unless a Option 1A decision is made to only revise the service agreement.:

- County Finance Department,
- Marin County LAFCO,
- State Board of Equalization,
- Loan and bond holders
- EPA Region 9

- State Water Resources Control Board
- San Francisco Regional Water Quality Control Board (RWQCB)
- Riverwatch
- BAAQMD
- LAFCO
- Marin County Board of Supervisors

Preliminary contacts with most of those identified above suggest that a transition by any Alternatives is possible and is similar to other consolidations accomplished in Marin County. Of particular guidance for a consolidation would be the 2013 City and Southern Main Fire consolidation, the current Murray Park and RVSD, and the Belvedere/Tiburon Sanitary District consolidations authorized by LAFCO in 2005.

The Alternatives 1B and 2 would also need to address transition issues for current City sewer workers directly supporting the sewer operations. Other support services provided by City staff indirectly supporting sewer operations will need to be evaluated and addressed as well as the impacts on the associated City budgets determined. Both alternatives also requires SMCSO to evaluate its current staffing levels to determine the impacts of expanding their sewer collection system operations for the addition of City collection system.

Appendix 1: Facility Comparison has identified several potential performance differences that would need to be addressed in a Phase II Study including a consolidation operational Implementation plan and timeline. The differences that would need to be evaluated would include:

- Staffing changes at both agencies resulting from the structural consolidation
- Bargaining unit salary and benefit differences resulting from staffing transfers or operating changes
- Evaluation of impacts on internal service funds and reserves
- Pipeline cleaning differences – twice per year (City) vs. every 3 years (SMCSO)
- Impacts of the differences in inaccessible sewer lines due to topography, accessibility, and larger number of sewer lines in easement lines
- Pipeline cleaning approach – self perform vs service contracts
- Differing remaining useful life and conditions of the gravity pipe systems – SMCSO 26 to 30 years, City 45 to 55 years
- Current condition of the City gravity pipes
- Capital replacement funding – cash funded through the current rate period versus debt financing
- City collection system rate setting
- Differences in administrative overhead changes
- Disposition of sewer related equipment and vehicles upon consolidation
- Sharing of facility locations for equipment and vehicles post consolidation
- CEQA requirements addressing a structural consolidation.
- SSMP revisions resulting from the selected alternative.

I. Advantages and Disadvantages of Consolidation

Based on the above analysis, the two most promising service alternatives for the future sewer operations are Alternatives 1 and 2. The City has worked closely with the SMCSO for many years and the City has recently expanded the use of outside service contractors to continue meeting the defined sewer system performance goals stated in the 2019 City SSMP. As a result, the City is fully aware of the advantages and disadvantages of using outside resources and shared services to efficiently and effectively accomplish their performance goals and requirements. The path forward, if either of the two alternatives is to be fully vetted, requires additional analysis of the many issues impacting both agencies from any service changes and should require the development of an operational implementation plan to understand how best to accomplish a either alternative.

It appears that the most promising sewer service alternative for the future is either a further expansion of service by SMCSO or full consolidation with SMCSO. To that end, Table 11 identifies advantages and disadvantages of either alternative to the City and its rate payers.

Table 11: Structural Consolidation Advantages and Disadvantages

<u>Advantages</u>	<u>Disadvantages/Challenges</u>
Greater efficiency in government operations; SMCSO would provide a single purpose focus on only the wastewater program	Sewer enterprise funding no longer part of funding
Customers would have single agency contact for information and concerns; single agency responsibility for collection, conveyance and treatment.	Impacts to other City Public Works programs and activities; possible reductions in staff for Public Works emergency response activities in the City
Single sewer service charge on the tax rolls – clearer customer understanding of the service provider	City staff transition between unions.
Elimination of current duplication of service and multiple layers of government for sewer collection operations	Development of sewer worker job family to include salary ranges and benefits.
Efficiencies and accountability in sewer system operations and levels of service to customers	Capital replacement funding requirements
Economies of scale for capital replacement likely to reduce unit costs for future capital projects	Adjustments to Public Works staffing for non-sewer related emergency response
Reduction of risk and liability to City from regulatory non-compliance and enforcement and Clean Water Act Citizen lawsuits	Reduced City Council authority over addition/deletion of sewer services to City parcels

Elimination of Quarterly/Annual Reporting to EPA from the Administrative Order and River Watch Settlement Agreement including legal review savings.	Increased level of effort and communications of City Public Works Director with SMCSD.
Long term benefit to sewer operations and customer services - single focus responsibilities	Transition of differing approaches of operating and capital replacement by SMCSD
Reduced sewer related overtime	Transition of differing approaches of operating and capital replacement by SMCSD
Removal of all sewer related provisions from Municipal Code	Sewer system rate adjustments based upon different operational and/or capital program approaches.
Reduction in capital equipment replacement expenses	City sewer staff morale following consolidation.
Elimination of sewer related service contract administration and management and staff sewer training	Reduced City local control over sewer levels of service, operations and assets.
Reduced requirement for administrative overhead – available for other City service needs	Additional coordination to align SMCSD strategic plans and priorities.
Transfer of all risk and liability for sewer operations to the SMCSD	Possible reduction in property tax revenue.
Elimination of overhead staff support to sewer operations	Increased permitting processes/requirements for SMCSD for operations and capital projects.
Elimination of duplication in regulatory compliance under the WDR	
No need for future SSMP revisions, biannual audits or Council readoption of the SSMP every five years.	
Elimination of CIWQS reporting to State of California of overflow database	
Elimination of management and response to overflows and sewer claims.	
SMCSD Board represented by City residents.	
Reduction of sewer service charges inflation or increase capital replacement funding.	
Reduction in legal support for compliance with sewer related enforcement and activities	
Single sewer program outreach to all SMCSD sewer customers.	
Full time commitment to environmental protection by SMCSD for City customers	
Elimination of fiscal responsibility for sewer operations and bond and loan management.	

J. Issues to be Addressed if Phase Two Authorized

If the City and the SMCS D determine it is desirable to move forward with an expanded service provisions with SMCS D or consolidation alternative, an operational implementation plan should be developed to address the following issues that require further definition and identification before a final decision is made can be made on the future of the City sewer collection system.

- a. A timeline for an estimated effective date for change in sewer collection system operations and responsibilities.
- b. Notification of the sewer collection system regulatory entities to include the EPA, SWRCB, San Francisco RWQCB and the BAAQMD of the changes and the effective date no later than 30 days prior to any change (see WDR Section H). Identification of any other regulatory agencies requiring advance notification of a change in service provision.
- c. Transfer of the EPA Administrative Order to SMCS D.
- d. Revisions to and adoption of revised SSMP(s) as this would constitute a “significant change” to either the City or the SMCS D SSMP requiring adoption of SSMP revisions by the proper governing board.
- e. Legal evaluation regarding the transfer of the current City sewer service charges to SMCS D without further Proposition 218 hearing and customer notifications. Establishment of a rate surcharge philosophy for the City collection system if consolidation is selected.
- f. Annual adoption of the most recent Prop 218 rate study for the City sewer collection system and current rates approved by the City Council through 2023/24.
- g. Evaluation of impacts to City customers' sewer service charges from a transfer/consolidation of the sewer program at SMCS D.
- h. Development of enabling resolutions for both agencies stating all agreements and actions required for a consolidation of the City sanitary sewer collection system functions with those of SMCS D.
- i. Evaluation of impacts to City and SMCS D staffing and general fund financing from either alternatives 1B or 2 of this report.
- j. Evaluation of legal requirements in the bargaining units of both organizations from the impacts of staffing transfers, additions or deletions resulting from consolidation.
- k. Discussions with the bargaining units of both agencies regarding staffing impacts on the existing bargaining unit agreements.

- l. Valuation of and/or transfer of sewer related reserve fund balances from the City Sewer Enterprise Fund to a new SMCSD Sausalito sewer collection system enterprise sub fund. Evaluation of transfer of reserves from City internal service funds.
- m. Complete evaluation of current condition of the entire City sanitary sewer pipe system – full CCTV assessment of all City sewer lines.
- n. Meet Marin LAFCO requirements for either enhance SMCSD services or consolidation between the agencies or for the full structural consolidation to SMCSD, including impacts on disadvantaged community of Marin City from such a change.
- o. Legal direction for the transfer of all sewer-related easements and property rights for the sanitary sewer collection system to SMCSD for consolidation.
- p. Notification and approval of the additions to the SMCSD tax rolls through the State Board of Equalization to allow the SMCSD to be able to assess annual sewer service surcharges to the SMCSD tax rolls. This must be completed prior to December 1st for rates commencing the following fiscal year on July 1st.
- q. Notification to the County Finance Department of the organizational changes and the effective date of those changes.
- r. Evaluations by the City revenue bond administrators on the impacts and conditions for transfer of the City debt obligations to SMCSD.
- s. Evaluations of the transfer requirements for the State Revolving Fund and the revenue bond loan obligations to SMCSD.
- t. Establishment of a schedule for completion of all required actions prior to the selected effective date of any of the selected alternative options.
- u. Evaluation of the SMCSD sewer-related ordinances and legal authorities and program requirements specific to the Sausalito collection system.
- v. Development of City requirements for permitting and processing of SMCSD activities on city streets for collection system maintenance and construction following either alternative.

K. Conclusions and Recommendation

Marin County currently has 12 wastewater government agencies managing the sanitary sewer systems of 55,000 people in the South Marin County with just a single local water agency for the same population. The concepts of consolidation and wastewater streamlining to the benefit of customers has been considered and evaluated for at least the past 25 years. The previous reviews and service revision evaluations have resulted in only a few actual consolidations even though Marin LAFCO and the Marin Grand Jury have, on multiple occasions, recommended that customers can experience enhanced services through consolidations of health care districts, fire service agencies, and wastewater services. All have been evaluated for both functional and structural consolidations identifying the potential for cost sharing programs, equipment sharing and/or consolidation of similar service provisions for customers.

Challenges of staff retention and efficient customer service levels are being impacted by the City's inability to hire and retain long-term, well-trained and certified collection system workers. The City sanitary sewer system, while well managed, continues to be challenged by staffing and capital program bids that far exceed estimated budgets for work on a sewer system that is older and may require accelerated system renewal and replacement, depending upon the results of a CCTV condition assessment.

A relatively small city such as Sausalito has many differing customer needs and the sewer function is just one of those customer supported activities that the Public Works Department must provide. Sanitary sewer program management and operations are not the staffs' full time responsibility as it is with SMCSO. However, consideration of the movement of the sewer function to SMCSO is not without the need to more fully understand and evaluate all impacts from this potential change in service provision. Recent consolidations between the City of Belvedere and the Tiburon Sanitary District and the very recently approved consolidation of Murray Park and the Ross Valley Sanitary District will provide positive examples and potential guidance for the consideration of a consolidation. In addition, the past City and Southern Marin Fire consolidation can also be instructive of the issues and actions necessary for a successful change in organization.

Consolidation of the City sewer collection system program may be the next reasonable step beyond expanded service by the SMCSO that the two agencies have engaged in for many years. While consolidation may appear appropriate based upon the above information, many additional questions and issues must be addressed and evaluated to both agencies' satisfaction before any final discussions or recommendations can be considered by the Sewer Committee or the two governing boards on the advisable path forward for the City collection system..

Recommendation:

For the reasons addressed in this report, consolidation of the City sewer collection system into the SMCSO operations, Alternatives 1 and 2 described above, are feasible and either are

reasonable next steps in the relationship between the City, SMCS D and its ratepayers. At a minimum, the current service agreement between the two agencies since 1953 needs to be updated, with a potential expansion of the current scope of services (Alternative 1). Should the Joint Sewer Committee not accept the recommendation to consolidate at this time (Alternative 2) and instead chooses Alternative 1, the resulting new service agreement could also include an option (trapdoor) that allows the agencies to proceed with a consolidation in the future. While consolidation appears to be feasible and appropriate based upon the analysis and results of this Study, additional questions and issues remain and will need to be addressed, evaluated, and resolved through the development of Phase II Study- Operational Implementation Plan.

Sewer Committee Draft

Appendix 1: Facility Comparisons – City and SMCSD*

<u>Parameter</u>	<u>City of Sausalito</u>	<u>SMCSD (Marin City)</u>	<u>Combined System</u>
State Waste Discharge ID (WDID)	2SSO19114	2SSO10189	2SSO10189
Service Population	7037	10,963	18,000
Residential – single family, EDU	1220	84	1304
Residential – family attached, EDU	901	0	901
Duplexes, EDU	1050	0	1050
Multi Family, EDU	1014	1180	2194
Floating Homes, EDU	0	398	398
Commercial/Industrial, EDU	1340	449	1789
Total Discharging EDUs	5525	2111	7636
Lateral Connections, each	4534	2000	6534
Area, square miles	2.26	0.537	2.797
Collections Gravity Pipe, miles	20.92	6.4	27.36
Pump Stations owned, each	4 (operated by SMCSD)	7	11
Pressure Pipe, miles	1	3.7	4.7
Collection Pipe Sizes, inches	4 to 18	6 to 16	4 to 18
Estimated Sewer Pipe Age, Yrs.	45 to 55	26	
Manholes/Sewer Inlets, each	650	199	849
Inaccessible Sewers, miles	7.5	0.7	8.2
Percent Inaccessible, %	36%	10%	29.9

**The above information is taken from the current State of California CIWQS System certified Annual Collection System Report and is subject to change or modification by each agency based on field changes and construction projects and assessments by each agencies staff annually.*