



July 8th, 2022

Elizabeth Gibbs
Interim City Manager
City of Beaumont
550 E. 6th Street
Beaumont, CA 92223

Subject: Perricone Interim Agreement - Extension

Dear Ms. Gibbs:

In October 2019, the City of Beaumont (City) City Council approved a Pretreatment Facilities Agreement which provided Perricone Farms (Perricone) with an interim waste discharge rate. For the City, this interim rate resulted in an additional 20% in revenue over the anticipated revenue documented in the City's Sewer Rate Study (2018). For Perricone, the interim rate provided both rate stabilization and time for an investment in effluent treatment, which at the time was estimated to be approximately \$2.78 million.

Due to changed conditions over the interim period, Perricone is requesting an extension to the existing Pretreatment Facilities Agreement from the current expiration date of December 31, 2022 to December 31, 2023. A summary of the primary drivers for the request are provided as follows:

- **Increased Cost of Compliance.** As noted in the Interim Agreement Letter (March 2019, Gannett Fleming), provided in the October 2019 City Council packet, the estimated investment was \$2.78M. To date, Perricone has invested approximately \$3.1 million with an additional \$0.9 million estimated to complete the treatment system. ***This is a 43% increase over the original estimate.*** These additional costs require time for a business to budget and absorb.
- **COVID-19 and Changes in Operation Impact Original Timeline.** While Perricone was able to complete a significant portion of the treatment system by November 2020, the process of optimizing and collecting data required for final completion was delayed. These delays are due to a combination of business impacts related to COVID-19, improvements in operations which resulted in changing water quality, and onboarding new staff to manage the new onsite treatment operations.
- **Extended End Date is Achievable.** The original plan outlined a multiple phase approach, including an interim step to address immediate concerns, piloting and final implementation of a permanent treatment solution. Perricone has successfully completed the interim step and piloting (Biogill), and has used the results of those efforts to optimize design on the remaining treatment components. Perricone is currently in construction for a water recycling system to reduce effluent and has completed preliminary design on the remaining treatment components. This extension will provide Perricone the ability to complete these final improvements.

As noted in the original Interim Agreement Letter, the partnership between the City and Perricone provides multiple benefits to both parties. Approving the requested extension provides for a continuance of these benefits, which include:

1. **Lower Operating Costs at WWTP.** Installing treatment at Perricone will result in improved effluent water quality which will lower operating costs for the City's wastewater treatment plant.
2. **Support Local Business.** A "ramp up" period for Perricone allows for a more reasonable increase



in business expenses over time allowing for stable and continued operations at the facility.

3. **Exceed Planned Revenue.** The requested Interim Rate results in *more revenue* to the City from Perricone than anticipated in the City’s Rate Study.
4. **Continuing a Solid Partnership.** Since completion of the interim treatment system, Perricone has not been in violation of any local limits, and Perricone staff have developed a strong working relationship with City staff.
5. **Improved Quality.** Perricone is delivering effluent that exceeds the anticipated interim quality for both BOD and TDS. This will continue through the extended interim rate period.

In support of this extension request, MKN has prepared updates to the summary tables provided in the original Interim Rate Letter. **Table 1** provides an overview of the updated rate analysis, with the requested extension.

**TABLE 1
RATE ANALYSIS**

Description	Units	Interim Period					
		FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	7/1/23 to 12/31/23
PERRICONE WATER QUALITY AND FLOW^(a)							
Avg. Perricone Flow ^(b)	gpd	125,000	125,275	109,606	104,902	105,000	105,000
BOD	mg/L	3,450	3,200	2,000	1,245	1,420	1,420
TSS	mg/L	283	363	1,140	720	410	410
TDS	mg/L	4,800	3,667	2,800	1,800	1,200	1,200
ANNUAL COST BREAKDOWN FOR PERRICONE							
Rate Increase ^(c)			6%	5%	5%	5%	5%
Flow Cost	\$/yr	\$172,995	\$183,873	\$168,946	\$169,687	\$178,378	\$93,670
BOD Cost	\$/yr	\$591,503	\$583,141	\$334,876	\$209,375	\$251,036	\$131,823
TSS Cost	\$/yr	\$67,083	\$91,457	\$263,904	\$167,408	\$100,212	\$52,623
TDS Cost ^(d)	\$/yr	\$98,172	\$72,464	\$46,044	\$24,908	\$13,424	\$6,712
Total Estimated Cost ^(e)	\$/yr	\$929,753	\$930,935	\$813,770	\$571,378	\$543,050	\$284,828
REQUESTED INTERIM RATE							
Rate	\$/hcf	\$2.64	\$2.80	\$2.94	\$3.09	\$3.24	\$3.41
Revenue Generated ^(f)	\$/yr	\$161,029	\$116,196	\$196,365	\$155,232	\$166,237	\$87,275
Difference from Potential	\$/yr	\$768,724	\$814,738	\$617,405	\$416,146	\$376,813	\$197,553

Notes:

- a) Water quality for FY 18/19 based on original Table 9 from Interim Rate Letter (March 2019); FY 19/20 based on average quarterly sampling from 8/1/19, 11/19/19 and 4/22/20; FY 20/21 based on average quarterly sampling from 11/18/20, 2/19/21 and 4/23/21; and FY 21/22 based on average quarterly sampling from 10/7/21 and 12/30/21. FY 22/23 based on most recent sampling and final period based on completion of final treatment.
- b) Flow based on monthly billing information; calendar years 2019, 2020 and 2021 used for FY 19/20, 20/21 and 21/22, respectively. Flows for FY 22/23 through end of term are based on average flow from January 2022 through June 2022.
- c) Rate increase from original Table 9 from Interim Rate Letter (March 2019) for FY 18/19 through FY 22/23. Increases in future years were kept consistent with final three years of rate period.
- d) TDS cost was not included in the 2018 Rate Study or related Proposition 218 public hearing notice. Charges were kept similar to original Table 9 which noted \$0.12/lb over baseline of 500 mg/L. A factor of 50 percent is applied to the TDS loading due to the unique organic component of TDS.
- e) “Total Estimated Cost” based on calculated unit cost for flow, BOD and TSS as shown in Figure 8 (Cost of Service) and Strength



Allocation Factors (Table 19). These rates are applied to the noted flow and strength for each year.

- f) Revenue based on payment information: 19/20 based on bills dated 1/2019 to 11/2019; 20/21 based on bills dated 2/2020 to 11/2020; and 21/22 based on bills from 2/2021 to 12/9/2021. Future years based on flow rate multiplied by Perricone effluent.

As noted above, the additional expenses by Perricone during the Interim Period (\$4.0M) will continue to exceed the reduction in revenue from the City (\$3.2M per Table 1). In addition, since the proposed interim rate extension includes annual increases consistent with the City’s Rate Study, the revenue received during the Interim Period will ***continue to exceed the revenue originally anticipated to be collected by the City from Perricone by approximately 20%.***

For the interim period, in accordance with Section 2.4 of the Pretreatment Facilities Agreement, Perricone will be charged using the interim rates for actual flow discharged to the City collection system. Future flows included in Table 1 are provided as an estimate and may be subject to change based on actual system operation.

To reflect the updated implementation schedule, **Table 2** is provided.

**TABLE 2
 IMPLEMENTATION SCHEDULE**

ACTION	MILESTONE
City Council Approval of Extension	August 2022
Complete Sampling and Process Selection	January 2022 to March 2022
30% Design and Design Build Contract Executed	April 2022 to July 2022
Final Design and Permitting	August 2022 to December 2022
Materials Procurement and Construction	October 2022 to June 2023
Startup and Optimization	July 2023 to August 2023
Sampling Program/ New SIU Discharge Permit	September 2023 to December 2023
End of Interim Rate	December 31, 2023

If you have any questions, please feel free to contact us by phone at (714) 213-9758 or by email at rgallagher@mknassociates.us.

Sincerely,
 MKN & Associates

Ryan Gallagher, PE
Principal