

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: BOARD OF PUBLIC UTILITIES
FROM: KIMBERLY ZUNINO, DEPUTY DIRECTOR – ADMINISTRATION
SANTA ROSA WATER
SUBJECT: RECOMMENDATION FOR CITY COUNCIL APPROVAL OF THE
FY 2018/19 WATER AND LOCAL WASTEWATER FUNDS
OPERATION, MAINTENANCE AND CAPITAL EXPENDITURE
REQUESTS

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by Santa Rosa Water staff that the Board of Public Utilities, by resolution, recommend that the City Council approve the Fiscal Year 2018/19 Water Fund and Local Wastewater Fund operation, maintenance and capital expenditure appropriation requests.

EXECUTIVE SUMMARY

Santa Rosa Water manages the City of Santa Rosa's water and wastewater enterprise funds under the general policy authority and direction of the Board of Public Utilities (BPU) pursuant to the City Charter. The BPU annually recommends a proposed fiscal year water and wastewater budget to the City Council to be included in the annual City budget adoption.

The water and wastewater funds are primarily financed by Santa Rosa ratepayer user fees and charges. Water rates approved by the Santa Rosa City Council include a fixed charge increase of 5% and a wholesale water rate pass-through increase of approximately 1.6% (for a combined water rate increase of approximately 2.3% for most customers). This rate increase, combined with the use of current fund balances, is considered sufficient to fund the prudent operation of the water system in 2018/19, with the exception of the water quality issue resulting from the October fires. Additional funds will be made available for the final water quality repair project from fund balance, re-appropriation of existing CIP funding and reserves. The authorized 3% wastewater rate increase combined with the use of current fund balances are considered sufficient to fund the prudent operation of the wastewater system and Santa Rosa's share of the Subregional system and maintain appropriate debt service ratios through 2018/19.

BACKGROUND

The Operations and Maintenance (O&M) budget and the Capital Improvement Program (CIP) were reviewed by the BPU Budget Subcommittee and by the full BPU in Study Session. If the Board recommends these budget requests to the City Council, Council will review the expenditure request in Study Session on May 16, 2018, and would approve the final budget after a public hearing in mid-June.

PRIOR CITY COUNCIL REVIEW

Each year the City Council reviews the Water and Wastewater Operations and Maintenance, and Capital Improvement Program, proposed revenue and expenditures as part of the City-wide budget process in May and June.

ANALYSIS

The water and wastewater funds support City-wide shared costs, Santa Rosa Water's allocation of the City's Information Technology Internal Service Fund, and Departmental shared costs.

SANTA ROSA WATER – ADMINISTRATION FUND

Santa Rosa Water (SRW) internal overhead is accounted for in the 'Administration' fund (Administration, Water Use Efficiency, Asset Management, and Safety and Training) and then spread to the Water, Wastewater, Regional Water Reuse, and Storm Water Funds based on various factors.

Overall, the Utilities Administration Fund is up \$705,884, or 8.6%, for the 2018/19 budget request. The majority of the increase is attributed to moving positions to the proposed Engineering Resources Division. Moving the positions to Water Administration will allow the positions to be allocated evenly to the Water, Wastewater and Subregional Funds. There are two new positions requested this year; a Deputy Director for the Engineering Resources Division and a senior buyer to assist Water with the large volume of procurement services for supplies, equipment and services. Three positions are being deleted which offset the cost of the requested positions.

The cost of added and deleted positions are;

- Adding Senior Buyer, \$111,000
- Adding Deputy Director, \$150,000
- Deleting Electrical Technician, **-\$130,000**
- Deleting Senior Administrative Assistant, **-\$82,000**
- Deleting Environmental Specialists, **-\$123,000**

SANTA ROSA WATER – WATER FUND

The Water O&M Fund is down **-3.1%** including the purchase of wholesale water. This budget includes Water's share of Utility Billing, Internal Administration (including Asset Management and Water Use Efficiency), and City Overhead.

Major changes include the decrease of water contingency purchase. Santa Rosa Water typically budgets for contingency purchase of wholesale water, the contingency has only been partially used in once in 10 years. If additional water purchase is required, the purchase would also increase revenue so the removal does not affect the funds ability to cover costs.

The Water capital improvement project budget baseline funding of \$13 million annually will be appropriated. However, the water quality issue created by the October 2017 fires requires additional funding for the repair project. Final project selection is continuing with the appropriate agencies. Funding to cover full water main replacement, \$40,000,000 estimate, is currently as follows:

The Water capital improvement project budget baseline funding of \$13 million annually will be appropriated. However, the water quality issue created by the October 2017 fires requires additional funding for the project. Final project selection is continuing with the appropriate agencies. Funding to cover full water main replacement is currently estimated at \$40,000,000. Water will be funding \$30,000,000 in 2018/19. Funding sources will be; a portion of the previously planned annual appropriation, undesignated fund balance, CIP contingency, catastrophic reserves and transfer from existing projects.

Water will be exploring other funding options, i.e. grants, loans, lines of credit and will coordinate with the BPU Budget Subcommittee and full BPU as the project costs are finalized and other funding opportunity are explored.

SANTA ROSA WATER – WASTEWATER FUND

The Wastewater O&M Fund budget request is up 4.4%.

Major changes include increases in benefits due to the implementation of a new short-term disability program.

The Wastewater capital improvement budget is proposed to receive the baseline funding of \$12 million in addition to undesignated fund balance of \$13,160,000. Additional funding will fund all fire related damages from the October 2017 fires.

Staff assumes water use will be flat compared to 2018/19 and that wastewater billings will be down 2% in 2018/19 compared to 2017/18 sewer use trends affected by the

October 2017 fires. Staff assumes that water and wastewater use will be flat in future years for Financial Plan assumptions.

In December, 2015, the City Council approved five years of Water rate increases including a 5% increase to the water fixed charge and a continuation of the pass-through of the Sonoma County Water Agencies increase in the wholesale price of water and a 3% increase in wastewater fixed and usage charges in 2016, 2017, and 2018 and a 2.5% increase in wastewater fixed and usage charges in 2019 and 2020. In 2016, staff recommended and Council approved a reduction in the preapproved wastewater increase to 2%. Staff recommends that rate increases proceed per plan in July 2018.

FISCAL IMPACT

These revenues and expenditures are built into Santa Rosa Water's current long term Financial Plans. There is no immediate rate implication to the authorized rate plan from the Fiscal Year 2018/19 proposed budget due to the use of available fund balances.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable

ATTACHMENTS

- Resolution

CONTACT

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