

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: LINDA REED, INTERIM DIRECTOR
SANTA ROSA WATER
ROBERTA ATHA, ADMINISTRATIVE ANALYST
SUBJECT: SANTA ROSA WATER RESERVE FUND POLICY UPDATE

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Board of Public Utilities and Water Department staff that the Council, by resolution, approve an update of the Santa Rosa Water Reserve Policy to increase the catastrophic reserve levels by 30% as per the 2015 Rate Study recommendations.

EXECUTIVE SUMMARY

Maintaining adequate reserve levels – funds set aside for specific purposes – allows a utility to respond to fluctuations in revenues and costs and respond to short-term emergencies. Adequate reserves directly affect a utility's bond rating and, ultimately, its ability to borrow money at affordable interest rates. Santa Rosa Water's Reserves were last updated in 2012. The 2015 Rate Study recommended an increase in the Catastrophic Reserve level to account for increased cost of construction over the years since the last update.

BACKGROUND

Santa Rosa Water operates the water supply and wastewater collection systems for the City of Santa Rosa and is the managing partner of the Santa Rosa Water Recycling System for the benefit of the City and the surrounding communities of Rohnert Park, Cotati, Sebastopol and the South Park County Sanitation District. Each of these three utility operations is accounted for as a separate enterprise and each has separate operating and capital funds and separate reserves.

Santa Rosa Water's financial policies, as well as available reserves, help protect the utilities, and customers, from financial risk and catastrophic events, including the risk of continuing drought.

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The current Reserve Policy was recommended to the City Council by the Board in December 2012 and adopted by the City Council in February 2013. The Board of Public Utilities will be reviewing the revised Policy at its May 19, 2016 meeting for recommendation to the City Council.

PRIOR CITY COUNCIL REVIEW

On February 26, 2013, the City Council, by Resolution No. 28244, approved the revision of Council Policy No. 00-57, City of Santa Rosa Utilities Department and Santa Rosa Subregional Water Reuse System Reserve Policy.

ANALYSIS

Current reserve policy designates Operating, Capital, Catastrophic, Subregional User Agency, and Designated Reserve levels and uses. Reserves are set aside in order to:

- Offset lower than expected revenues due to water shortage emergency, low sales due to cool or wet weather, etc.;
- Offset demand fee fluctuations due to development patterns, trends and issues;
- Provide short-term funding in case of local disaster or catastrophic event;
- Meet bond covenants and loan requirements.

There are no recommended changes to current Operating, Capital, Subregional User Agency, and Designated Reserve levels and uses.

The following revision to the catastrophic reserves is recommended:

Catastrophic Reserves – Catastrophic reserves are intended to help protect the water and wastewater utilities from financial risk associated with a major seismic event or other catastrophic event. They are intended to be available in the event of a major (catastrophic) emergency, including a reduction in revenues from a water shortage emergency, rather than minor emergencies. The amounts held in water fund and wastewater fund catastrophic reserves were determined based on an engineering analysis of the amounts needed to restore “basic services” of the water and wastewater systems following a major earthquake. Currently, the water utility has \$4.4 million held in the catastrophic reserve, the wastewater utility has \$5.2 million held in the catastrophic reserve and the Subregional system has \$1.3 million held in the catastrophic reserve. These amounts have not been adjusted since 2006. Since that time, the 20-cities construction cost index (CCI), published by the *Engineering News Record*, has increased about 30 percent. As a result, the real value of the catastrophic reserves is diminished.

The 2015 Rate Study recommended that Santa Rosa Water increase the amounts in the catastrophic reserves to account for the effects of inflation. With 30 percent increases to each of these reserves, new balances would be \$5.75 million for the water utility, \$6.8 million for the wastewater utility and \$1.7 million

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for the Subregional system. The increased balances in each of these reserves can be accomplished simply by designating a portion of currently available surpluses in each utility's Operating Fund. No increase in utility rates is required.

FISCAL IMPACT

There are sufficient balances in the Water fund balances to increase the reserves at this time with no adverse rate impacts. (See Attachment 1 for total fund balances.)

	Catastrophic Reserves		
	Water	Wastewater	Subregional
Recommended	\$5,750,000	\$6,800,000	\$1,700,000
Current	\$4,400,000	\$5,200,000	\$1,300,000
Difference	\$1,350,000	\$1,600,000	\$400,000

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

This item was recommended by the Board of Public Utilities Budget Subcommittee at their final rate recommendation review on August 11, 2015 and by the full Board of Public Utilities at the May 19, 2016 regular meeting.

NOTIFICATION

Not applicable

ATTACHMENTS

- Attachment 1 – Water Fund Balances
- Attachment 2 - 2015 Rate Study
- Attachment 3 - Redline of Council Policy 000-57
- Resolution

CONTACT

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