

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: LINDA REED, DEPUTY DIRECTOR - ADMINISTRATION
SANTA ROSA WATER
SUBJECT: APPROVAL OF THE PRELIMINARY 2017/18 REGIONAL WATER
REUSE SYSTEM OPERATING AND MAINTENANCE, CAPITAL
IMPROVEMENT AND DEBT SERVICE BUDGET AND
ALLOCATION OF COSTS

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Water Department, the Regional Water Reuse System Technical Advisory Committee and the Board of Public Utilities that the Council, by resolution, approve the Preliminary 2017/18 Regional Water Reuse System Operating and Maintenance, Capital Improvement, and Debt Service Budget and Allocation of Costs for the purpose of notifying the participating Regional Water Reuse User Agencies of their allocation of such costs prior to May 1 as per agreement.

EXECUTIVE SUMMARY

The Regional Water Reuse System, managed by the City of Santa Rosa per Agreement, is a state-of-the-art wastewater treatment facility serving five member agencies (Santa Rosa, Rohnert Park, Sebastopol, Cotati, and the Sonoma County South Park Sanitation District, each hereinafter referred to as "User Agency" or collectively as "User Agencies"). The Laguna Treatment Plant is a tertiary-level treatment facility permitted for 21.34 million gallons per day (MGD) average dry weather flow. The operating Agreement requires that the City annually prepare a Preliminary Budget and Allocation of Costs for the Regional Water Reuse System and notify the User Agencies of these costs by May 1st of each year. The Agreement further requires that the proposed budget and allocation of costs be reviewed by the Regional Water Reuse Technical Advisory Committee (TAC), the Board of Public Utilities (BPU) and the Council of the City of Santa Rosa prior to noticing the partners of operating and debt service costs due.

The Preliminary Regional Water Reuse Operations and Maintenance (O&M) Fund budget request is \$34,717,521, the Regional Water Reuse cash-funded Capital Improvement Program (CIP) is \$4,080,000 and the Regional Water Reuse debt service due is \$22,643,932.

BACKGROUND

Each year, the Laguna Treatment Plant recycles billions of gallons of treated wastewater from homes, businesses and industries located within the Santa Rosa Regional Water Reuse System, which serves the cities of Santa Rosa, Rohnert Park, Sebastopol, Cotati and the Sonoma County South Park Sanitation District.

The operating Agreement between the User Agencies has been modified five times, most recently in 2008. A Regional Water Reuse Technical Advisory Committee comprised of staff from each User Agency meets on a regular basis to review the operations of the system.

Operating and cash-funding capital improvement costs are allocated to the User Agencies based on annual flow into the plant. Debt service costs are allocated according to the Regional Water Reuse Agreement in place at the time the debt was issued.

PRIOR CITY COUNCIL REVIEW

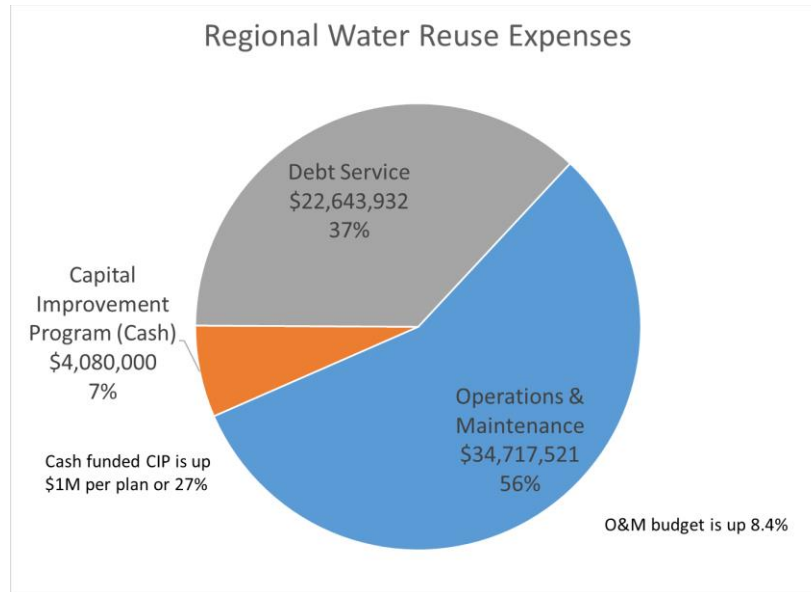
Each year the City Council reviews the Preliminary Regional Water Reuse Operations and Maintenance, Capital Improvement Program, and Debt Service proposed budgets and allocation of costs prior to notifying the User Agencies of the allocations.

Additionally, each year the City Council reviews the Regional Water Reuse Operations and Maintenance, Capital Improvement Program, and Debt Service proposed budgets as part of the City-wide budget process in May and June.

ANALYSIS

The Preliminary Regional Water Reuse Operations and Maintenance (O&M) Fund budget request is \$34,717,521, the Regional Water Reuse cash-funded Capital Improvement Program (CIP) is \$4,080,000 and the Regional Water Reuse debt service due is \$22,643,932.

The budget breakdown is as below:



The Regional Water Reuse System budget will be reviewed in greater detail by the City Council along with other City budgets during the study sessions on May 9th and 16th. In general, the major cost drivers include:

- Electricity up \$682,200 or 21%
 - 2016/17 charges are very high compared to historical averages
 - Staff has been advised to increase budgets for 2017/18 by 20%
 - Estimate incorporates savings of about \$1.4M from CHP production
- Wastewater NPDES Permit Compliance \$600,000
- Principal & Interest on Interfund Loans (New) \$417,678
 - 1 buffer property
 - 1 biosolids property
- Department Allocation up \$431,171
 - Revised allocation of Asset Management staff – 1/3 to Regional increases costs by \$252,026

Expenditures are offset by earned revenues of \$3,238,954 for various services and agreements. Projected revenues are up 16% in 2017/18 due primarily to the tipping fees associated with the new High Strength Waste Receiving Facility. The remainder of the required revenue is billed to the User Agencies.

Operating costs are allocated based on prior year flow into the plant, so the actual impact to each User Agency can vary slightly year to year as flows fluctuate. The total due from each User Agency for operations and cash funded CIP is based on 2016 flows:

Actual Flows per Annual Memo	million gallons	
	<u>2015/16</u>	
Santa Rosa	4,528.13	73%
Rohnert Park	1,161.02	19%
Sebastopol	175.73	3%
Cotati	146.30	2%
SPCSD	203.84	3%
Total	6,215.02	

Debt service is owed by the Regional Water Reuse system for a variety of bonds and state loans that have financed facility and process improvements over the years. Debt service payments are allocated to each User Agency based on the Regional Water Reuse Agreement in place at the time the debt was issued.

In 2016/17, allocations to each agency would have declined due to a one-time reduction in debt service payments. The User Agencies, other than Santa Rosa, agreed to keep contributions flat year over year and collect the additional funds for rate smoothing in future years. Santa Rosa's 'savings' from the one-time reduction remained in the Wastewater Enterprise Fund balance available for future year's offsets.

In addition, typically the User Agencies receive a refund of allocations collected but not spent in the previous year that can be used to offset future costs.

2017/18 allocations have been calculated based on applying excess collections to smooth the 2017/18 and projected future allocations as follows:

2017/18										
	O&M Contribution	% of Total	Debt Service	% of Total	Total	Apply Retained Refund	Total less rate smoothing	\$ Change from 2016/17	% Change from 2016/17	% from each Agency - total
Santa Rosa	\$26,571,169	72.89%	\$17,177,726	75.86%	43,748,894	0	43,748,894	4,533,761	10.94%	74%
Rohnert Park	\$6,751,242	18.52%	\$3,485,166	15.39%	10,236,408	624,906	9,611,503	457,691	5.00%	17%
Sebastopol	\$1,024,352	2.81%	\$655,866	2.90%	1,680,218	85,538	1,594,680	75,937	5.00%	3%
Cotati	\$907,699	2.49%	\$836,028	3.69%	1,743,728	62,078	1,681,650	80,079	5.00%	3%
SPCSD	\$1,199,330	3.29%	\$489,146	2.16%	1,688,475	88,369	1,600,107	76,196	5.00%	3%
	\$36,453,792	100.00%	22,643,932	100.00%	59,097,724	860,890	58,236,833	5,223,663	9.45%	100%

Funds remaining for future years are:

	2015/16 Refund + Change in DS Reserve Amounts	Billed in 2016/17 for Rate Smoothing	2014/15 Retained Refund	Total	Total Remaining
Santa Rosa	\$2,516,051	\$0		\$2,516,051	\$2,516,051
Rohnert Park	\$243,238	\$158,321	\$727,419	\$1,128,978	\$504,072
Sebastopol	\$88,475	\$105,398	\$78,612	\$272,485	\$186,947
Cotati	\$30,489	\$32,922	\$11,016	\$74,426	\$12,348
SPCSD	\$115,521	\$46,651	\$132,955	\$295,127	\$206,758
	\$2,993,773	\$343,292	\$950,002	\$4,287,067	\$3,426,177

Santa Rosa's excess contributions from Fiscal Year 2015/16 will return to the Wastewater Enterprise Fund balance and are not held in a special reserve.

FISCAL IMPACT

Santa Rosa's share of Regional Water Reuse allocated costs are built into the Wastewater Financial Plan. There is no immediate rate implication to the authorized rate plan from the Fiscal Year 2017/18 proposed budget due to allocation offsets saved from previous years and 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

The proposed Regional Water Reuse budget recommendation was reviewed and recommended by motion by the Regional Water Reuse TAC on April 6, 2017, and was also reviewed and recommended by resolution to Council by the BPU on April 6, 2017. The City Council will have an opportunity to further review this budget request at the planned City-wide budget study session May 16, 2017. Any changes will be incorporated into the final 2017/18 budget.

NOTIFICATION

The Regional Water Reuse User Agencies will be notified by the Finance Department of their monthly obligation.

ATTACHMENTS

Attachment 1 - Resolution of The Board of Public Utilities Recommending that the Santa Rosa City Council Approve the Preliminary FY 2017/18 Regional Water Reuse System Operating, Capital and Debt Service Budget and the Proposed Operations and Debt Service Allocation of Costs

CONTACT

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