

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: BOARD OF PUBLIC UTILITIES
FROM: KIMBERLY ZUNINO, DEPUTY DIRECTOR – ADMINISTRATION
SANTA ROSA WATER
SUBJECT: FY 2022/23 WATER AND LOCAL WASTEWATER OPERATIONS
AND MAINTENANCE AND CAPITAL IMPROVEMENT BUDGETS
– RECOMMENDATION TO CITY COUNCIL

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by Santa Rosa Water and the Budget Review Subcommittee that the Board of Public Utilities, by resolution, recommend that the City Council approve the Fiscal Year 2022/23 Water Fund and Local Wastewater Fund operations and 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) per 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. Approved user rates include a 3% water usage and fixed charge increase and a 2% wastewater usage and fixed charge increase for FY 2022/23. The proposed budget includes increases to several uncontrollable expenditure categories including salaries and benefits, vehicle replacement and maintenance, purchase of wholesale water, electricity and gas and increases due to regulatory compliance requirements and maintenance costs. There is also an expected decrease in revenues due to ongoing drought conditions, resulting in a small projected budget deficit (expenditures exceeding the amount of revenue collected). However, with the proposed rate increases and robust undesignated fund balances, the water and wastewater budgets, as well as Santa Rosa Water's share of the Regional system allocations through FY 2022/23 can be absorbed with no negative impact to our customers or current rate schedule.

FY 2022/23 WATER AND LOCAL WASTEWATER OPERATIONS AND
MAINTENANCE AND CAPITAL IMPROVEMENT BUDGETS – RECOMMENDATION
TO CITY COUNCIL
PAGE 2 OF 4

BACKGROUND

The Operations and Maintenance (O&M) budget and the Capital Improvement Program (CIP) were reviewed by the BPU Budget Review Subcommittee in February and March 2022 and by the full BPU in Study Session on April 7, 2022. If the Board recommends these budget requests to the City Council, Council will review the expenditure request in Study Sessions on May 10th and 11th, 2022 and would approve the final budget after a public hearing in June.

PRIOR BOARD OF PUBLIC UTILITIES REVIEW

Each year the Board of Public Utilities reviews the Water and Wastewater Operations and Maintenance, and Capital Improvement Program, proposed revenue and expenditures prior to making a recommendation to the City Council.

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, Support Services, Engineering and Safety and Training) and then the budget is distributed to the Water, Wastewater, Regional Water Reuse, and Storm Water Funds based on various factors.

In January 2022 the Water Billing division was moved from the Finance Department to Santa Rosa Water and was incorporated into the Administrative Fund. This creates the appearance of a very large increase overall in the Administration Fund. However, Santa Rosa Water has always covered 100% of the expenditures of Water Billing and it is therefore not an additional expenditure to the proposed budget.

The Administration Fund, not including Water Billing, is increasing by 4% and Water Billing is increasing by 6.1% for the FY 2022/23 budget request.

SANTA ROSA WATER – WATER FUND

The Water O&M Fund is increasing by 6% including the purchase of wholesale water. This budget includes Water's share of Water Billing, Internal Administration and City Overhead.

The major changes to this fund include salary and benefit increases and increases in vehicle replacement and maintenance costs. The purchase of wholesale water is also

FY 2022/23 WATER AND LOCAL WASTEWATER OPERATIONS AND
MAINTENANCE AND CAPITAL IMPROVEMENT BUDGETS – RECOMMENDATION
TO CITY COUNCIL
PAGE 3 OF 4

increasing at a higher rate than the last several years. However, the long-range financial model was developed with a yearly 6% increase for the wholesale rate and in a normal water year would not be significant.

The Water CIP budget baseline funding of \$14.2 million will be appropriated to various water projects.

SANTA ROSA WATER – WASTEWATER FUND

The Wastewater O&M Fund budget is increasing 8.3%.

The major changes to this fund include salary and benefit increases and increases in vehicle replacement and maintenance costs.

The Wastewater CIP budget baseline funding of \$13.1 million will be appropriated to various wastewater projects.

RESERVES –

There are multiple reserves in the Water and the Wastewater funds, including operations and maintenance, catastrophic, rate stabilization and debt service reserves, and these reserves are set at levels determined by policy. In addition, when there is excess revenue and unexpended budget, an undesignated reserve builds, and these funds are eligible to be applied to future expenditures, which is being proposed this year. The undesignated fund balance has grown over the last several years due to unexpected revenue during the COVID-19 pandemic, reimbursements from FEMA for the Tubbs Fire projects and cash that was planned for the Ultraviolet Disinfection System Project that was not directed to the project because of extremely favorable bond rates. The funds are sufficient to cover the proposed additional expenditures for this year without affecting customer's rates or any negative long-term impacts. In addition, the City Council and the Long-Range Finance Committee have directed the Finance Department to develop a 115 Trust to set aside and provide increased returns on funds to cover the City's unfunded pension liability. Santa Rosa Water will contribute available funds from the undesignated fund balance to begin building funding for coverage of Santa Rosa Water's obligation.

ASSUMPTIONS -

Staff assumes water use will remain flat from FY 2021/22, which included a reduction based on the drought. Staff assumes wastewater billings will be flat compared to FY 2021/22. Staff assumes demand fee revenues will also remain flat.

FY 2022/23 WATER AND LOCAL WASTEWATER OPERATIONS AND
MAINTENANCE AND CAPITAL IMPROVEMENT BUDGETS – RECOMMENDATION
TO CITY COUNCIL
PAGE 4 OF 4

FISCAL IMPACT

A majority of the expenditures are built into Santa Rosa Water's current long-term Financial Plans and in a typical year, revenues are sufficient. The application of undesignated fund balance ensures sufficient funding for the proposed budget and there will be no negative long-term impacts to planned rates resulting from the FY 2022/23 proposed budget.

ENVIRONMENTAL IMPACT

This action is exempt from the provisions of California Environmental Quality Act (CEQA) under CEQA Guidelines Section and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and that no further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On March 15, 2022, the Board of Public Utilities Budget Review Subcommittee reviewed and recommended the Water and Local Wastewater budgets for approval.

ATTACHMENTS

- Resolution

CONTACT

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