

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: NICK HARVEY, BUDGET AND FINANCIAL ANALYSIS MANAGER
SANTA ROSA WATER
SUBJECT: APPROVAL OF THE PRELIMINARY FISCAL YEAR 2023/24
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 Santa Rosa Water the Subregional Technical Advisory Committee, and the Board of Public Utilities, that the Council, by resolution, approve the Preliminary Fiscal Year 2023/24 Regional Water Reuse System Operating and Maintenance, Capital Improvement, and Debt Service Budget and Allocation of Costs for the purpose of notifying the Regional Water Reuse User Agencies of their allocation of such costs by May 2023.

EXECUTIVE SUMMARY

The Regional Water Reuse System, managed by the City of Santa Rosa pursuant to the Subregional Agreement (Agreement), is a wastewater treatment facility serving five member agencies, the cities of Santa Rosa, Rohnert Park, Sebastopol, and Cotati, and the Sonoma County South Park Sanitation District, each hereinafter referred to as "User Agency" or collectively as "User Agencies." The Agreement requires the City to 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. The Agreement further requires that the proposed budget and cost allocation be reviewed by the Subregional Technical Advisory Committee (SubTAC), the Board of Public Utilities (BPU) and the Council of the City of Santa Rosa prior to noticing the User Agencies of their cost allocations.

The Regional Operations and Maintenance (O&M) Fund budget request is \$43,822,675, the Regional cash-funded Capital Improvement Program (CIP) request is \$10,000,000, and the Regional debt service due is \$23,096,097.

This fiscal year cycle, Santa Rosa Water (SRW) is requesting an additional Wastewater Operations Supervisor, which will replace an existing Skilled Maintenance Worker

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position and result in a cost increase of approximately \$27,000. If approved by City Council, this increase will be added to the O&M request and allocated to the User Agencies based on the allocation methodology defined in the Agreement.

BACKGROUND

Each year, the Laguna Treatment Plant recycles approximately six billion gallons of treated wastewater from homes, businesses and industries located within the Santa Rosa Regional System, serving the cities of Santa Rosa, Rohnert Park, Sebastopol, Cotati, and the Sonoma County South Park Sanitation District.

Operating costs are allocated to each of the User Agencies based on each User Agency's share of annual flows into the plant. The cash funding for CIP, per the Agreement, distributes the allocation based on defined capacities for each User Agency. Debt service costs are allocated according to the time the debt was issued and the repayment schedule.

PRIOR CITY COUNCIL REVIEW

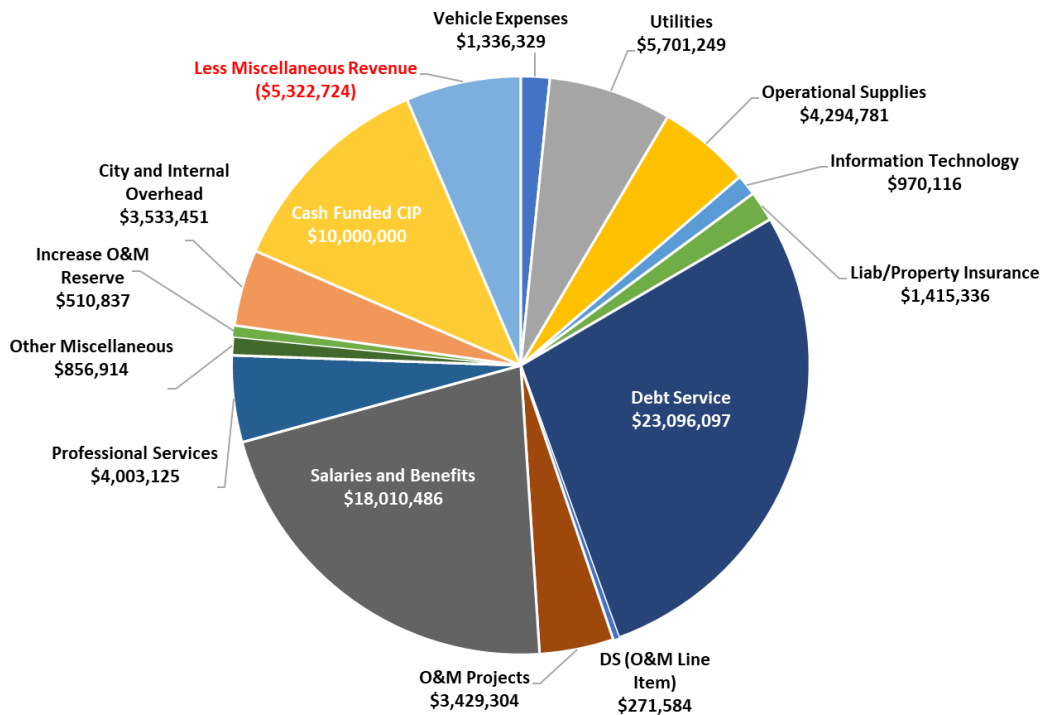
Each year the City Council reviews the Preliminary Regional Water Reuse O&M, CIP, and Debt Service proposed budgets and allocation of costs prior to notifying the User Agencies of the allocations.

Additionally, each year the City Council reviews the Regional Water Reuse O&M, CIP, and Debt Service proposed budgets as part of the City-wide budget process in May and June.

ANALYSIS

The Preliminary Regional Water Reuse O&M Fund budget request is \$43,822,675, the Regional cash-funded CIP request is \$10,000,000, and the Regional debt service due is \$23,096,097. The budget breakdown is as below:

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In general, the major cost drivers include:

- Cash funded CIP is \$10,000,000 – Increasing \$1m per year per agreement by the User Agencies.
- Salaries and Benefits up 8.9% - Increase due to cost-of-living adjustments (COLAs).
- Electricity up 36.6% - PG&E rates are expected to increase significantly this year. The City has chosen to apply a 15% rate increase across all departments, if increases are approved at a higher rate a budget adjustment will be brought forward for all departments at mid-year. The Regional Reuse System has an additional increase due to increased demand as well. Electricity expenditures have been significantly higher than budgeted the last two years, therefore an adjustment for increased use has been budgeted.
- Chemicals up 31.6% - Costs of chemicals required for the Regional Reuse System have been increasing over the last two years due to inflation and supply chain issues, therefore budget has been adjusted to incorporate these increases.

O&M expenditures are offset by expected revenues of \$5,322,724 for various services and agreements that generate revenues for the Subregional fund. Projected revenues are down slightly from Fiscal Year 2022/23 due to the expiration of the dairy waste loans as well as the expiration of an annual \$300,000 payment from Calpine which was required through 2022 per a letter of credit agreement with the City of Santa Rosa.

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Operating costs are allocated based on metered flow into the Laguna Treatment Plant. The actual impact to each User Agency can vary slightly year to year as flows fluctuate. The total due this fiscal year from each User Agency for operations is based on 2021/22 flows (shown in million gallons):

Actual Annual Flows	2021/22	2021/22 Percentage
Santa Rosa	4,512.33	73.04%
Rohnert Park	1,173.63	18.23%
Sebastopol	169.85	2.64%
Cotati	147.77	3.17%
SPCSD	200.61	2.91%
	6,204.19	

Cash funded CIP costs are allocated based on each User Agency's capacity as defined in the Agreement:

CIP Per Agreement	
Santa Rosa	70.76%
Rohnert Park	19.70%
Sebastopol	3.26%
Cotati	2.95%
SPCSD	3.33%

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 time the debt was issued and the corresponding debt repayment schedule.

Fiscal Year 2023/24 projected allocations to each User Agency are as follows:

	Total 2022/23	2023/24 Budgeted O&M	2023/24 CIP Contribution	2023/24 Debt Service	Total 2023/24	Difference
Santa Rosa	\$50,838,148	\$28,497,381	\$7,076,000	\$17,024,081	\$52,597,462	\$1,759,314
Rohnert Park	\$12,325,942	\$7,111,667	\$1,970,000	\$3,859,561	\$12,941,228	\$615,286
Sebastopol	\$1,908,404	\$1,029,885	\$326,000	\$796,957	\$2,152,842	\$244,438
Cotati	\$2,372,316	\$1,236,642	\$295,000	\$817,309	\$2,348,951	-\$23,365
SPCSD	\$1,983,522	\$1,135,214	\$333,000	\$598,189	\$2,066,403	\$82,881
	\$69,428,332	\$39,010,788	\$10,000,000	\$23,096,097	\$72,106,885	\$2,678,553

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FISCAL IMPACT

Santa Rosa Water's share of the Regional Water Reuse allocated costs are built into the Wastewater Financial Plan and the proposed 2% increase for wastewater. The current rate structure was intentionally designed to spend down Wastewater undesignated fund balance and decrease the impacts on customers. There is sufficient fund balance to cover the proposed additional costs and there are no rate implications from the proposed Fiscal Year 2023/24 proposed Regional Water Reuse System budget and allocation of costs.

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

On March 13, 2023, the Budget Review Subcommittee reviewed and recommended approval of the proposed Fiscal Year 2023/24 Regional Water Reuse System budget and allocation of costs.

On April 6, 2023, the SubTAC reviewed and recommended approval of the proposed Fiscal Year 2023/24 Regional Water Reuse System budget and allocation of costs.

On April 20, 2023, the Board of Public Utilities reviewed and recommended, by resolution, that the City Council approve the Preliminary Fiscal Year 2023/24 Regional Water Reuse System budget and allocation of costs.

NOTIFICATION

Not Applicable.

ATTACHMENTS

- Resolution

PRESENTER

Nick Harvey, Budget and Financial Analysis Manager