

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: CHAIR AND BOARD MEMBERS
FROM: NICK HARVEY, ACTING DEPUTY DIRECTOR -
ADMINISTRATION
SANTA ROSA WATER
SUBJECT: FY 2024/25 WATER, LOCAL WASTEWATER, REGIONAL REUSE
AND STORM WATER AND CREEKS OPERATING AND
MAINTENANCE, CAPITAL IMPROVEMENT, AND DEBT
SERVICE BUDGET AND ALLOCATION OF COSTS –
RECOMMENDATION TO CITY COUNCIL

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by Santa Rosa Water, the SubRegional Technical Advisory Committee, and the Board of Public Utilities Budget Subcommittee that the Board of Public Utilities, by resolution, recommend that the City Council approve the 2024/25 Water, Local Wastewater, Regional Reuse and Storm Water and Creeks Operating and Maintenance, Capital Improvement, and Debt Service Budgets and resulting cost allocations.

EXECUTIVE SUMMARY

Santa Rosa Water manages the City of Santa Rosa's water, wastewater, regional, and storm water and creeks enterprise funds under the general policy authority and direction of the Board of Public Utilities (BPU) pursuant to Section 25 of the City Charter. The BPU annually recommends a proposed fiscal year water, wastewater, and regional budget to the City Council to be included in the annual City budget adoption as well as a proposed fiscal year storm water and creeks budget.

The water and wastewater funds are primarily financed by Santa Rosa ratepayers in the form of user fees and charges. Approved user rates include a 4% water usage and fixed charge increase and a 2% wastewater usage and fixed charge increase for FY 2024/25. The proposed budgets include increases to uncontrollable expenditure categories including IT allocations, E&R fleet charges and insurance premiums. The proposed budget also includes a 9.88% increase to the cost of purchasing water wholesale from Sonoma Water. To absorb these increases with no further impact to our ratepayers,

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Santa Rosa Water (SRW) has reduced both our proposed Water and Wastewater Capital Improvement Program (CIP) funding in order to balance the budget.

The Regional Water Reuse System, managed by the City of Santa Rosa per the Subregional Agreement, is a 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 Subregional Agreement requires that the City prepare a Preliminary Budget and cost allocations for the Regional Water Reuse System and notify the User Agencies of these costs annually by May. The Agreement further requires that the proposed budget and cost allocation be reviewed by the SubRegional Technical Advisory Committee (SubTAC), the BPU, and the Santa Rosa City Council prior to noticing the User Agencies of their cost allocations. The Regional Operations and Maintenance (O&M) Fund budget request is \$47,559,615, the Regional cash-funded CIP is \$11,000,000, and the Regional debt service due is \$21,673,172. Unlike our Local enterprises, no reductions are proposed to the planned Regional CIP appropriations.

The Storm Water and Creeks funds O&M budgets are primarily financed by an annual parcel assessment in addition to a small amount of general fund transfer. The proposed budgets include increases in vehicle charges and professional services related to their new Storm Water Permit Compliance program. There is sufficient revenue from the parcel assessment and general fund to cover the proposed O&M budget of \$3,168,873 and proposed CIP budget of \$1,657,634, for a total proposed budget of \$4,826,507.

The Regional Water Reuse System, managed by the City of Santa Rosa per the Subregional 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 operating Subregional Agreement requires that the City prepare a Preliminary Budget and cost allocations for the Regional Water Reuse System and notify the User Agencies of these costs annually by May 1st. The Agreement further requires that the proposed budget and cost allocation be reviewed by the Regional Technical Advisory Committee (TAC), the Board of Public Utilities (BPU), and the Santa Rosa City Council prior to noticing the User Agencies partners of their cost allocations. The Regional Operations and Maintenance (O&M) Fund budget request is \$47,559,615, the Regional cash funded Capital Improvement Program (CIP) is \$11,000,000, and the Regional debt service due is \$21,673,172. Unlike our Local enterprises, we are not proposing any cuts to the planned Regional CIP appropriations.

This fiscal year cycle SRW is requesting one additional position in the Admin Fund (costs are shared by Local Enterprises). The Admin fund is requesting a new Technical Applications Specialist (TAS) to replace a vacant Department Technology Coordinator

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(DTC) in our Asset Management group. This change would result in net savings to the department of just over \$5,000. SRW is also requesting two additional positions in our Regional Reuse Enterprise. The first is a Trucked Waste Coordinator. This position would manage our trucked waste program, Regional's most robust revenue stream outside of partner allocations. This position would replace a vacant Department Application Specialist position, at a net cost of approximately \$30,000. The second position requested for the Regional Reuse Enterprise is a Recycled Water Supervisor for the Reclamation section, replacing one vacant Skilled Maintenance Worker position at a net cost of approximately \$53,000. If approved by City Council, the combined cost increase of the two positions, estimated at \$839,000, will be added to the O&M request and allocated to the partners based on the allocation methodology defined in the Subregional Agreement.

The Council will be asked to approve the preliminary Regional budget on April 16, 2024, for the purpose of notifying the User Agencies by May and will review the proposed budget with the City-wide budget study session on May 7th & 8th, 2024.

BACKGROUND

The Water, Wastewater, Regional, and Stormwater and Creeks O&M budgets and CIP budgets were reviewed by the Budget Review Subcommittee in February and March 2024, and by the BPU in Study Session on March 21, 2024. If the BPU recommends these budget requests to the City Council, Council will review the expenditure request in Study Sessions on May 7th and 8th, 2024 and may approve the final budget after a public hearing in June.

Each year, the Laguna Treatment Plant (LTP) recycles billions of 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 their respective share of annual flows into the LTP. The cash funding for CIP, per the Subregional 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 BOARD OF PUBLIC UTILITIES REVIEW

The Board of Public Utilities reviewed the proposed budget at its study session on March 21, 2024.

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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 SRW internal overhead is accounted for in the 'Administration' fund (Administration, Water Use Efficiency, Asset Management, Support Services, Engineering Services and Safety and Training) and the budget is distributed to the Water, Wastewater, Regional Water Reuse, and Storm Water Funds based on various factors. The Administration Fund is increasing by 4.2% for the 2024/25 budget request. The main drivers of the increase are increased utilities costs, vehicle costs and miscellaneous expenses. We are planning for PG&E rate increases and a sharp increase in subsidies funded by the Help to Others (H2O) program.

SANTA ROSA WATER – WATER FUND

The Water O&M Fund is increasing by 5.9% including the purchase of wholesale water. This budget includes Water's share of internal Administration and City Overhead. The largest expenditure increases in the fund are insurance premiums and professional services. Insurance premiums, which are uncontrollable, are increasing 47%. Professional services are increasing 32%, attributable to budgeting annual Groundwater Sustainability Agency operating costs as well as costs related to a planned office space reconfiguration. In addition, there is a 9.88% increase for the purchase of wholesale water. The long-range financial model was developed with a yearly 6% increase for the wholesale rate and therefore the expenditure will require expenditure reductions in the Water CIP to cover the unexpected increased cost of wholesale water. The Water CIP budget baseline funding has been reduced to just under \$9.5 million in to balance the proposed budget.

SANTA ROSA WATER – WASTEWATER FUND

The Wastewater O&M Fund budget is decreasing by 1.9% for FY 2024/25.

While the Wastewater O&M is coming down slightly, there are increases in utilities and insurance premiums, which are uncontrollable. Utilities have been under-budgeted in this fund, so SRW is budgeting an almost 26% increase, with insurance premiums rising 24%.

The Wastewater CIP budget, which has also been reduced for next year to balance the budget, will be appropriating \$3.3 million to various wastewater projects.

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REGIONAL REUSE FUND

O&M expenditures are offset by expected revenues of \$5,522,207 for various services and agreements that generate revenues for the Regional fund. Projected revenues are up slightly from 2023/24 due to the continuing growth of our Trucked Waste Tipping revenues.

Operating costs are allocated based on metered flow into LTP, 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 2022/23 flows (shown in million gallons):

Actual Annual Flows	2022/23	2022/23 Percentage
Santa Rosa	5,225.50	73.46%
Rohnert Park	1,263.07	17.76%
Sebastopol	180.68	2.54%
Cotati	233.60	3.28%
SPCSD	210.21	2.96%
	7,113.06	100.00%

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 2024/25 projected allocations to each User Agency are as follows:

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	Total 2023/24	2024/25 Budgeted O&M	2024/25 CIP Contribution	2024/25 Debt Service	Total 2024/25	Difference
Santa Rosa	\$52,597,462	\$31,271,888	\$7,783,600	\$16,173,829	\$55,229,317	\$2,631,855
Rohnert Park	\$12,941,228	\$7,558,814	\$2,167,000	\$3,528,543	\$13,254,357	\$313,129
Sebastopol	\$2,152,842	\$1,081,275	\$358,600	\$672,443	\$2,112,318	(\$40,524)
Cotati	\$2,348,951	\$1,397,974	\$324,500	\$776,433	\$2,498,907	\$149,956
SPCSD	\$2,066,403	\$1,257,997	\$366,300	\$521,924	\$2,146,221	\$79,818
	\$72,106,886	\$42,567,949	\$11,000,000	\$21,673,172	\$75,241,121	\$3,134,235

STORM WATER AND CREEKS FUND - The Storm water and Creeks O&M Fund budget is increasing by 20.5%. The Storm water and Creeks O&M is increasing primarily due to the addition of new Storm Water Compliance program requirements anticipated from the next Storm water National Pollutant Discharge Elimination System (NPDES) permit and associated costs. The Storm water CIP budget which varies year over year based on available funding will be \$1.6 million and appropriated to various storm water and creeks projects.

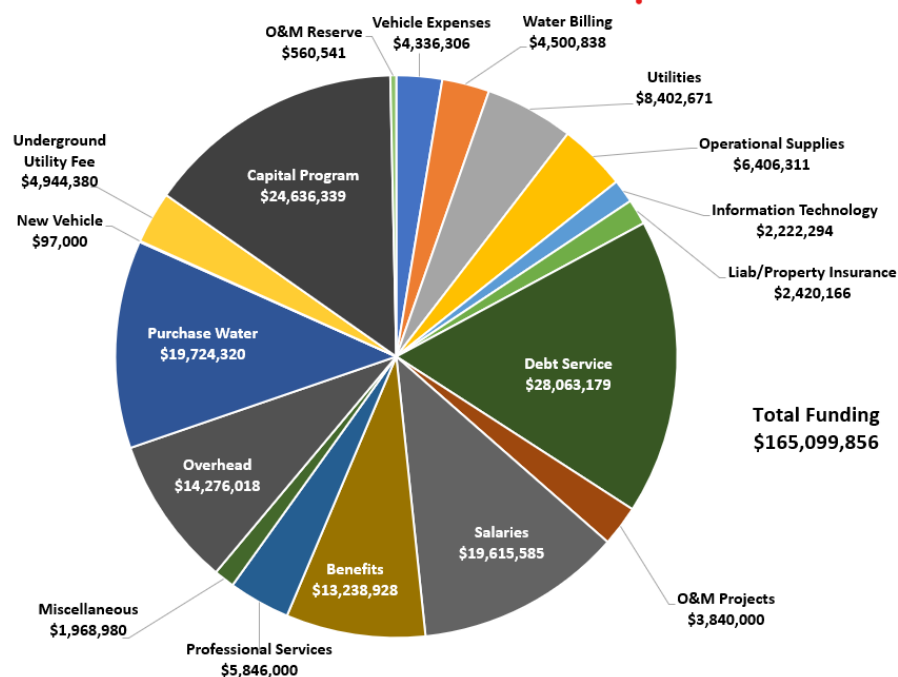
RESERVES - There are multiple reserves in the Water and the Wastewater funds, including operations and maintenance, catastrophic, rate stabilization and debt service reserves. These reserves are set at levels determined by policy. In addition, when there is excess revenue and unexpended budget the undesignated reserve builds, these funds are eligible to be applied to future expenditures, which has been utilized for the past several years. After several years of steady growth, the undesignated fund balances in the local enterprises saw significant reductions as the result of operations for the fiscal year ended June 30, 2023. This is the result of both intentional deficit budgeting last year as well as the significant contributions our local enterprises made to the City's 115 pension trust. To preserve further degradation of our undesignated reserves, SRW has proposed balanced budgets for all of our enterprises. This necessitated significant cutbacks to our proposed 2024/25 CIP budgets in the local enterprises, not affecting Regional Reuse or the Storm Water and Creeks enterprise funds.

The Storm water and Creeks funds do not carry multiple reserves since they don't have the same legal requirements as the Water and Wastewater enterprise funds. As such, the only reserves in the funds are undesignated.

ASSUMPTIONS Staff assumes water use will increase 1% from FY2023/24 deliveries, based on growth. Staff assumes wastewater billings will be flat compared to FY2023/24. Staff also assumes demand fee revenues will remain stable. Storm water and Creeks parcel assessment will increase by the consumer price index.

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The total Water, Local Wastewater, Regional Reuse and Storm Water and Creeks budgets expenditures by category are depicted below:



FISCAL IMPACT

SRW is proposing balanced budgets (100% of expenditures covered by budgeted revenues) for Fiscal Year 2024/25 budgets. While there are no rate implications for our ratepayers for next year, the final year of our approved rate schedule, it is important to note that to achieve a balanced budget significant cutbacks in our proposed Water and Wastewater CIP budgets were needed. It is expected that the significant increases in the wholesale water expenditure, electricity and operational supplies will have impacts as we begin planning for the next round of rate increases.

Santa Rosa Water's share of Regional Water Reuse allocated costs are built into the Wastewater Financial Plan and the proposed 2% increase for wastewater. Unlike the local enterprises, the Regional Reuse fund did not require reductions to the planned 2024/25 CIP appropriations to balance the budget. There are no rate implications to our ratepayers stemming from our Fiscal Year 2024/25 proposed budget.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it

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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 Water, Wastewater, Regional Reuse and Storm water and Creeks budgets were reviewed and recommended for approval on March 19, 2024 by the Budget Review Subcommittee.

The proposed Regional budget was reviewed by the Subregional TAC at their meeting on March 14, 2024, and the Subregional TAC recommended the Regional Budget for approval on April 4, 2024.

NOTIFICATION

Not Applicable.

ATTACHMENTS

- Resolution

PRESENTER

Nick Harvey, Acting Deputy Director - Administration