

CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060



WATER COMMISSION

Regular Meeting

June 3, 2024

7:00 P.M. GENERAL BUSINESS AND MATTERS OF PUBLIC INTEREST, COUNCIL CHAMBERS (809 CENTER STREET, SANTA CRUZ)

The City of Santa Cruz does not discriminate against persons with disabilities. Out of consideration for people with chemical sensitivities, please attend the meeting fragrance free. Upon request, the agenda can be provided in a format to accommodate special needs. Additionally, if you wish to attend this public meeting and will require assistance such as an interpreter for American Sign Language, Spanish, or other special equipment, please call Water Administration at 831-420-5200 at least five days in advance so that arrangements can be made. The Cal-Relay system number: 1-800-735-2922.

APPEALS: Any person who believes that a final action of this advisory body has been taken in error may appeal that decision to the City Council. Appeals must be in writing, setting forth the nature of the action and the basis upon which the action is considered to be in error, and addressed to the City Council in care of the City Clerk. Appeals must be received by the City Clerk within ten (10) calendar days following the date of the action from which such appeal is being taken. An appeal must be accompanied by a fifty dollar (\$50) filing fee.

Agenda and Agenda Packet Materials: The Water Commission agenda and the complete agenda packet containing public records, which are not exempt from disclosure pursuant to the California Public Records Act, are available for review on the City's website: <https://www.cityofsantacruz.com/government/city-departments/water/city-water-commission> and at the Water Department located at 212 Locust Street, STE A, Santa Cruz, California, during normal business hours.

Agenda Materials Submitted after Publication of the Agenda Packet: Pursuant to Government Code §54957.5, public records related to an open session agenda item submitted after distribution of the agenda packet are available at the same time they are distributed or made available to the legislative body on the City's website at: <https://www.cityofsantacruz.com/government/city-departments/water/city-water-commission> and are also available for public inspection at the Water Department, 212 Locust Street, STE A, Santa Cruz, California, during normal business hours, and at the Council meeting.

Need more information? Contact the Water Department at 831-420-5200.

Call to Order

Roll Call

Statements of Disqualification - Section 607 of the City Charter states that...All members present at any meeting must vote unless disqualified, in which case the disqualification shall be publicly declared, and a record thereof made. The City of Santa Cruz has adopted a Conflict of Interest Code, and Section 8 of that Code states that no person shall make or participate in a governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect distinguishable from its effect on the public generally.

Oral Communications

Announcements

Consent Agenda (Pages 1.1 - 4.33) Items on the consent agenda are considered to be routine in nature and will be acted upon in one motion. Specific items may be removed by members of the advisory body or public for separate consideration and discussion. Routine items that will be found on the consent agenda are City Council Items Affecting Water, Water Commission Minutes, Information Items, Documents for Future Meetings, and Items initiated by members for Future Agendas. If one of these categories is not listed on the Consent Agenda then those items are not available for action.

1. City Council Actions Affecting the Water Department (Pages 1.1 - 1.3)
That the Water Commission accept the City Council actions affecting the Water Department.

2. Water Commission Minutes from May 6, 2024 (Pages 2.1 - 2.7)
That the Water Commission accept the City Council actions affecting the Water Department.

3. Fiscal Year 2024 3rd Quarter Unaudited Financial Report (Pages 3.1 - 3.8)
That the Water Commission accept the Fiscal Year 2024 3rd Quarter Unaudited Financial Report.

4. City of Santa Cruz Water Department's Proposed Fiscal Year 2025 Operating and Fiscal Year 2025-29 Capital Investment Program Budgets (Pages 4.1 - 4.33)
That the Water Commission authorize the Chair to send a letter to the City Council related to the City of Santa Cruz Water Department's Fiscal Year 2025 Budgets and financial position recommending the City of Santa Cruz Water Department's Budgets to the City Council.

Items Removed from the Consent Agenda

General Business (Pages 5.1 - 7.11) Any document related to an agenda item for the General Business of this meeting distributed to the Water Commission less than 72 hours before this meeting is available for inspection at the Water Administration Office, 212 Locust Street, Suite A, Santa Cruz, California. These documents will also be available for review at the Water Commission meeting with the display copy at the rear of the Council Chambers.

5. Health in All Policies, Climate Action, and Resilience (Pages 5.1 - 5.3)

That the Water Commission receive information and provide feedback on Health in All Policies, Climate Action, and Resilience.

6. Update on Climate Resilient Santa Cruz: Graham Hill Water Treatment Plant Facility Improvements Project (Pages 6.1 - 6.9)

That the Water Commission receive an update on the Climate Resilient Santa Cruz: Graham Hill Water Treatment Plant Facility Improvements Project upcoming Planning Commission, Water Commission, and City Council considerations of the project.

7. Water Supply Augmentation Implementation Plan Quarterly Report (Pages 7.1 - 7.11)

That the Water Commission receive the Water Supply Augmentation Implementation Plan Quarterly Report and provide feedback.

Subcommittee/Advisory Body Oral Reports (Pages 8.1 - 8.2)

8. Santa Cruz Mid-County and Santa Margarita Groundwater Agencies Advisory Body Report (Pages 8.1 - 8.2)

That the Water Commission receive information on the Santa Cruz Mid-County and Santa Margarita Groundwater Agencies.

Director's Oral Report

Information Items (Pages 9.1 - 9.4)

9. Information Items (Pages 9.1 - 9.4)

Adjournment

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WATER COMMISSION INFORMATION REPORT

DATE: 05/28/2024

AGENDA OF: 06/03/2024
TO: Water Commission
FROM: Heidi Luckenbach, Water Director
SUBJECT: City Council Actions Affecting the Water Department

RECOMMENDATION: That the Water Commission accept the City Council actions affecting the Water Department.

BACKGROUND/DISCUSSION:

May 14, 2024

3rd Quarter FY 2024 Water Department Capital Investment Program Transfer – Budget Adjustment (WT)

Resolution No. NS-30,329 was adopted amending the FY 2024 budget and transferring budget appropriations within the Water Department Capital Investment Program (CIP) to update various project budgets with current cost forecasts.

Newell Creek Dam Inlet/Outlet Replacement Project – Notice of Completion (WT)

Motion **carried** to accept the work of Obayashi Corporation (Burlingame, CA) as complete per plans and specifications, authorizing the filing of a Notice of Completion for the Newell Creek Dam Inlet/Outlet Replacement Project and authorizing the Water Director to sign the Notice of Completion as the Owner’s Authorized Agent.

Resolution to Authorize the Agreement Between the City of Santa Cruz Water Department and Wells Fargo Bank for a \$25 Million Line of Credit (WT)

Motion **carried** to:

- Adopt **Resolution No. NS-30,332** authorizing the borrowing of an amount not to exceed \$25,000,000 from Wells Fargo Municipal Capital Strategies, LLC under a Revolving Line of Credit agreement and approving related financing documents and official actions, and

- Direct and authorize the City Manager to execute documents in forms approved by the City Attorney.

May 28, 2024

Adjustment of the City of Santa Cruz Water Department Miscellaneous Fees (WT)

Resolution No. NS-30,338 was adopted adjusting the City of Santa Cruz Water Department's miscellaneous fees for services due to labor cost increases and rescinding Resolution No. NS-30,181.

2024 Well Rehabilitation Project – Approval of Plans and Specifications, California Environmental Quality Act Exemption, and Authorization to Advertise for Bids and Award of Contract (WT)

Motion **carried** to:

- Approve the plans and specifications for the 2024 Well Rehabilitation Project (c702501) and authorize staff to advertise for bids. The City Manager is hereby authorized and directed to execute the contract as authorized by Resolution No. NS-27,563; and authorize the Water Director to execute change orders within the approved project budget; and
- Find the 2024 Well Rehabilitation Project exempt under the California Environmental Quality Act (CEQA), allowing staff to file a Notice of Exemption.

U4 Tank Replacement Project – Award of Professional Engineering Services During Construction to Mesiti-Miller Engineering Inc. (WT)

Motion **carried** authorizing the City Manager to execute an agreement in a form to be approved by the City Attorney with Mesiti-Miller Engineering Inc. (Santa Cruz, CA) for Professional Engineering Services during Construction for the U4 Tank Replacement Project in the amount of \$432,075 and to authorize the Water Director to execute future contract amendments within the approved project budget.

Purchase of Real Property Necessary for Brackney Landslide Area Pipeline Risk Reduction Project: Assessor's Parcel Number 072-144-30, Owned by Karlheinz Schaaf Trust (WT)

Resolution No. NS-30,339 was adopted authorizing and directing the City Manager or his designee to execute a Purchase Sale Agreement between the City of Santa Cruz and Karlheinz Schaaf Trust for the easements located in Ben Lomond, CA near Highway 9 between Glen Arbor Road and Brackney Road for a permanent easement and a temporary easement on APN 072-144-30 for the Brackney Landslide Area Pipeline Risk Reduction Project.

Purchase of Real Property Necessary for the Regional Drought Resiliency Project – Intertie 1 (c702205): Multiple Properties, Assessor’s Parcel Numbers 067-202-66 owned by the Yates Family Trust and 021-141-20 owned by the Scotts Valley Fire District and Approval of Plans and Specifications and Authorization to Advertise for Bids and Award Contract (WT)

Motion **carried** to:

- Adopt **Resolution No. NS-30,340** authorizing and directing the City Manager or his designee to execute a Purchase Sale Agreement, in form approved by the City Attorney, between the City of Santa Cruz and Nichole and Craig Yates for permanent and temporary easements on APN 067-202-66 located in Santa Cruz, CA near Sims Road and Firehouse Lane for the Regional Drought Resiliency – Intertie Project;
- Adopt **Resolution No. NS-30,341** authorizing and directing the City Manager or his designee to execute a Purchase Sale Agreement, in form approved by the City Attorney, between the City of Santa Cruz and Scotts Valley Fire District (SVFD) for a permanent easement on APN 021-141-20 located in Scotts Valley, CA near La Madrona Drive and Altenitas Road for the Regional Drought Resiliency – Intertie Project; and
- Approve the plans and specifications for the Regional Drought Resiliency Project – Intertie 1(c702205) and authorize staff to advertise for bids. The City Manager, or designee, is hereby authorized and directed to execute the contract as authorized by Resolution No. NS-27,563; and authorize the Water Director to execute change orders for the Regional Drought Resiliency Project – Intertie 1 (c702205) for amounts that are within the approved project budget.

PROPOSED MOTION: Accept the City Council actions affecting the Water Department.

ATTACHMENTS: None.

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Water Department

Water Commission
7:00 p.m. – May 6, 2024
Council Chambers
809 Center Street, Santa Cruz

Summary of a Water Commission Meeting

Call to Order: Chair Burks called the meeting to order at 7:00 p.m. in the Council Chambers.

Roll Call

Present: J. Burks (Chair); T. Burns (Vice Chair); D. G. Baskin; M. Goddard, J. Lear, J. Rhodes; and S. Ryan.

Absent: None

Staff: D. Baum, Deputy Water Director/Chief Financial Officer; C. Borrowman, Associate Planner II; H. Cagliero, Administrative Assistant III; C. Coburn, Deputy Water Director/Operations Manager; M. Kaping, Principal Management Analyst; H. Luckenbach, Water Director; I. Rivera, Deputy Water Director/Engineering Manager; A. Rodriguez, Community Relations Specialist; and S. Perez, Principal Planner.

Others: T. Carson from Community Foundation of Santa Cruz County (CFSCC); S. Flock from Soquel Creek Water District; C. Llerandi, Consultant at Kennedy Jenks; R. Swartz from CFSCC; C. Tana, Consultant at Montgomery & Associates; A. Sonenshein, Consultant at FM3 Research; and one member of the public.

Statements of Disqualification: None.

Oral Communications:

At 7:01 p.m. Chair Burks opened Oral Communications and the following person spoke:

Becky Steinbruner

Chair Burks closed Oral Communications at 7:05 p.m.

Announcements: None

Consent Agenda:

1. City Council Items Affecting the Water Department
2. Water Commission Minutes from April 1, 2024

Chair Burks opened public comment and there were no speakers.

Chair Burks closed public comment.

Commissioner Ryan moved approval of the Consent Agenda as amended, and Commissioner Baskin seconded.

VOICE VOTE: MOTION CARRIED
AYES: All
NOES: None
DISQUALIFIED: None

Items removed from the Consent Agenda: None.

General Business

3. Results of a Recent Telephone Survey on Water Supply and Water Supply Augmentation Issues

Water Director Luckenbach introduced Adam Sonenshein, Consultant with FM3 Research, who presented the Results of a Recent Telephone Survey on Water Supply and Water Supply Augmentation Issues.

What percentage of the customers surveyed were commercial versus residential?

- Only residential customers were included in the survey.

Was any influence noted in the survey results from how rainy the year was?

- This survey was completed in November of 2023, which was followed by a heavy rain season. Trends were seen that were consistent between this survey and the last one, such as favoring use of recycled water and desalination; however, a survey is a snapshot in time, and it isn't possible to know precisely if the current weather influenced the survey results.

Is the fact that the results of the survey show that the community is less concerned about future water supplies than when previously polled viewed as a positive outcome because it shows confidence in the work of the Water Supply Advisory Committee and the City of Santa Cruz (City)'s implementation of those recommendations, or as a negative outcome because the community may be less likely to support ongoing expensive projects?

- The results of the survey regarding reduced concern about future water supply are viewed as neither positive nor negative. The reduced concern shows confidence in the work of the Water Supply Advisory Committee and ongoing work of the City of Santa Cruz Water Department (Water Department or Department) such as the Water Augmentation Implementation Plan, piloting and demonstration of Aquifer Storage and Recovery (ASR), and pursuing interties with neighboring water agencies. Weather has a large influence on our customers, so the task moving forward is to identify how to keep concern about future water supply in the community's awareness even when it is raining.

Are there statistics available that show how City voters versus County of Santa Cruz (County) voters responded to the survey questions?

- Yes, there is data available that displays responses of City versus County responses.

Using existing resources, how can staff identify potential options to fill information, engagement, or knowledge gaps with the public around water conservation?

- The Water Department has shifted its water conservation focus to customer assistance. Currently, instead of helping customers reduce their day-to-day demand, we are helping them find leaks and taking measures to assist customers on the affordability side. There still is some outreach that focuses on conservation; however, it is important to recognize that Santa Cruz residents are approaching the floor of consumption in the home. The costs associated with a more extreme conservation plan are high and comparable to the cost of a water supply project, so at present the focus is on helping customers with affordability issues and pursuing a water supply project.

Were there any questions on the survey that assessed how long customers have lived in the community along with age demographic information to ascertain if they had experienced any previous droughts in this area?

- Yes, information on the length of time customers had lived in the area was collected and that information can be provided to the Commission.

Chair Burks opened public comment and comments were made by:

Becky Steinbruner

Chair Burks closed public comment.

No motion was required for this item as it was informational only.

4. 2024 Securing Our Water Future Outreach Plan

Water Director Luckenbach introduced Amanda Rodriguez, Community Relations Specialist, who presented the 2024 Securing Our Water Future Outreach Plan.

Will there be multi-lingual outreach opportunities in the future?

- Yes, the Department is committed to translating more material into Spanish and improving our outreach efforts within Spanish-speaking communities.

Chair Burks opened public comment and the comments were made by:

Becky Steinbruner

Chair Burks closed public comment.

No motion was required for this item as it was informational only.

5. Water Supply Augmentation Implementation Plan (WSAIP): Updates on Optimization Study for the Santa Cruz Mid-County Groundwater Basin, and Santa Cruz Water Supply Planning

Water Director Luckenbach introduced Cameron Tana, a consultant with Montgomery & Associates, and Claudia Llerandi, a consultant with Kennedy Jenks, who presented on the Water

Supply Augmentation Implementation Plan (WSAIP): Updates on Optimization Study for the Santa Cruz Mid-County Groundwater Basin, and Santa Cruz Water Supply Planning.

How does the current ASR pilot testing factor into the analysis for the Optimization Study in the Santa Cruz Mid-County Groundwater Basin?

- There is currently information from two of the wells that have had pilot and demonstration testing and that information has been incorporated into the model to reflect the response and extrapolated that information to other wells and new wells.

When will the Department know which projects will be chosen to provide a sustainable water supply?

- Some answers will be provided today, but the Optimization Study and the WSAIP will need to be completed in order to fully determine which direction the Department will decide to take.

Is the reason City to Soquel Creek Water District (District) transfers are only included in Track 1 on slide 11 of the presentation because there is effectively a tradeoff between optimizing either for transfers or for new wells?

- There are a few reasons transfers are only included in Track 1. The Habitat Conservation Plan (HCP) imposes constraints on transfers in dry and critically dry years resulting in limited volumes to transfer; the results from Track 1 showed limited benefit for the Mid-County Groundwater Basin. Note that earlier simulations (prior to HCP flow constraints) of higher transfer amounts to the District also showed limited benefit to the basin. With this understanding of the constraints and basin benefits from transfers, subsequent tracks focus on using the surface water to expand ASR.

Is the City's supply gap discussed in this presentation still 2.6 billion gallons per year?

- The current estimated demand in 2040 is 2.9 billion gallons per year, and 2.6 billion gallons per year is the projected supply gap.

In Track 5 on slide 11 of the presentation, does the extra water supply that Santa Cruz would use to expand ASR come from supplies that would be used for interdistrict transfer in Track 1?

- Yes. In the Tracks that include expanding ASR, the water injected would come from available surface water supply so the various scenarios, or Tracks, are looking at different ways of putting available surface water to beneficial use for future water supply.

On page 31 of the presentation, there is 2.3 million gallons per day capacity of wastewater available for use in Portfolio 5, 6, and 7, but the Optimization Study modeled no more than 1.9 million gallons wastewater use on slide 11. In the case that less than 2.3 million gallons per day of wastewater is used, is there additional capacity within the wastewater stream available?

- The purpose of the Optimization Study is not to maximize all the available water for purification and recycling; rather, it is to see if and how various sizes of projects could achieve the goals for meeting basin sustainability and fill the supply gap. The thought was that for an option where purification of wastewater was maximized, there would most likely be a high cost and it may not be the most cost-effective option. Because of this, lower levels of expansion of the Pure Water Soquel Project were modeled to see which options could potentially fill the gap.

In the WSAIP, the full 2.3 million gallons per day of available wastewater is being considered for use either to build a City direct potable reuse (DPR) project or to expand the capacity of Pure Water Soquel Project. As shown on slide 31, the Portfolios being considered in the WSAIP include an approximate doubling of the Pure Water Soquel Project (Portfolios 1 through 4), and a project separate from the Pure Water Soquel Project using all available wastewater in a larger City purification project (Portfolios 5 through 8).

Is water generated by other projects included in the analysis of the Optimization Study and WSAIP?

- The projects being analyzed in the Optimization Study include those using surface water and treated wastewater with the goal of restoring the Mid-County Groundwater Basin as well as attempting to fill the City's supply gap. The WSAIP builds on this with projects that include DPR, desalination, and surface water projects with neighboring water agencies in the Santa Margarita Groundwater Basin.

Were costs of the different options analyzed as part of the Optimization Study?

- The Optimization Study is considering cost, and that is an upcoming task once the groundwater and other modeling is complete. Additional cost analyses of the different options are also included as the next part of the WSAIP which will look at costs for direct potable reuse and desalination, for example.

Chair Burks opened public comment and comments were made by:

Becky Steinbruner

Chair Burks closed public comment.

No motion was required for this item as it was informational only.

6. City of Santa Cruz Water Department's Proposed Fiscal Year 2025 Operating and Fiscal Year 2025-29 Capital Investment Program (CIP) Budgets

Water Director Luckenbach introduced David Baum, Chief Financial Officer, who presented the City of Santa Cruz Water Department's Proposed Fiscal Year 2025 Operating and Fiscal Year 2025-29 Capital Investment Program (CIP) Budgets.

What is the reason that City overhead charges have increased by 68% over the past two years?

- Overhead charges have increased by 68% over the past two years because the City updated its cost allocation plan, which had not been previously updated for many years. The cost allocation plan is governed by the Office of Management and Budget at the Federal level. The updates to the plan resulted in these extraordinary increases in overhead charges, which cover costs of tasks performed by other departments such as paycheck production and ensuring insurance coverage by Finance. Other drivers of these increased charges are increased costs in insurance rates, as well as increased litigation settlement amounts. These increased overhead charges are similar for all departments within the City.

Will the reduction of the revolving line of credit from \$50 million to \$25 million allow sufficient credit for the needs of the Department?

- Yes, \$25 million in revolving credit should be sufficient because historically we have never used more than \$21 million on the revolving line of credit, and we also now have the WIFIA loan which still has \$108 million available for use.

Why is most of the spending for Water Supply Augmentation CIP projects concentrated in 2029?

- Many of the CIP projects have had timelines pushed out as the projects became more well-defined and have ended up scheduled for 2029.

Is it true that the Water Department is paying for monitoring fees associated with the implementation of the HCP even though it has yet to be fully approved?

- No. To clarify, we are budgeting for these costs in FY 2025 but are holding off on developing and implementing projects until the water rights are approved.

Are the three new limited-term positions included in the FY 2025 budget associated with a new program?

- Those positions are associated with utility billing assistance in our Customer Service and Customer Assistance divisions while the new City-wide Enterprise resource planning (ERP) system is migrated to a new system.

Can you please explain why the debt service value decreased last year?

- The reason the debt service decreased last year was that a large payment was made from reserves in order to reduce the amount of debt carried on the revolving line of credit due to severe rises in the interest rate for that account.

Can you please explain the circumstances contributing to the increases for Conservation in FY 2025 outlined in the FY 2025 Proposed Operations Budget on Page 6.29 and for the Water Supply Augmentation Strategy in FY 2029 outlined in the FY 2025-29 CIP Summary on page 6.33?

- The budget for this division proposed for FY 2025 is very similar to budget for the previous fiscal year; however, the year-end estimate for FY 2024 is low because there are three vacancies which have not yet been filled and have vacant for a significant amount of time.

The reason for the increased budget in FY 2029 for Water Supply Augmentation Strategy is because that is when the second phase of this strategy is expected to begin, which could include an expansion of Pure Water Soquel or a direct potable reuse (DPR) project, for example.

Chair Burks opened public comment and comments were made by:

Becky Steinbruner

Chair Burks closed public comment.

VOICE VOTE: MOTION CARRIED
AYES: All
NOES: None

DISQUALIFIED: None

Subcommittee/Advisory Body Oral Reports

Water Director Luckenbach announced that in future agenda packets, subcommittee/advisory body oral reports will be a written staff report that will only be discussed as needed.

7. Santa Cruz Mid-County Groundwater Agency (MGA)

The MGA has not met since March 21st, 2024, and the next meeting is scheduled for June 20, 2024.

8. Santa Margarita Groundwater Agency (SMGWA)

The SMGWA has not met since February 29th, 2024, and the next meeting is scheduled for May 23, 2024.

Director's Oral Report:

Water Director Luckenbach announced the promotion of Isidro Rivera to Deputy Water Director/Engineering Manager.

Information Items: Information items included in the agenda packet were not discussed.

Adjournment: The meeting was adjourned at 9:45 p.m.

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WATER COMMISSION INFORMATION REPORT

DATE: 05/20/2024

AGENDA OF: 06/03/2024

TO: Water Commission

FROM: David Baum, Chief Financial Officer
Malissa Kaping, Principal Management Analyst

SUBJECT: Fiscal Year 2024 3rd Quarter Unaudited Financial Report

RECOMMENDATION: That the Water Commission accept the Fiscal Year 2024 3rd Quarter Unaudited Financial Report.

BACKGROUND: On June 6, 2016, the Water Commission approved the City of Santa Cruz Water Department (Water Department or Department)'s Long-Range Financial Plan (LRFP) which created a framework to ensure financial stability and maintain the credit rating needed to debt finance major capital investments planned for the utility. The Water Commission reviewed an updated LRFP during the summer of 2021 and recommended to the City Council that it approve the plan at their meeting on August 23, 2021. The updated LRFP maintains the 2016 recommended financial targets for a debt service coverage ratio of 1.5x, a combined 180-days cash on hand, \$3 million in an Emergency Reserve, and a \$10 million Rate Stabilization Reserve.

DISCUSSION: The attached financial report presents the Water Department's unaudited fiscal outlook through the third quarter of Fiscal Year (FY) 2024 and is a snapshot of the transactions posted during the time period of July 1, 2023, through March 31, 2024. Page 1 of the attached financial report is focused on the Operating budget and page 2 reflects the Capital budget. Noteworthy items are discussed on the following pages.

Operating Revenues

Water sales are recovering from the impacts of the COVID-19 pandemic and recent drought. However, water sales are 3% below budgeted amounts for FY 2024. Residential consumption is up 5%, and overall consumption is up 3%. The water rate increased 16.4% on July 1, 2023; the water rate will increase by an additional 16.4% on July 1, 2024.

Interest earnings are trending higher than budget by \$427,000. The investment rate for the first nine months is averaging about 3.8%; the budget interest rate was 0.9%.

Grant revenue is trending downward because operating grants are recorded in the operating budget totaling \$390,000. The other \$4.6 million in grants fund capital projects and are recorded in the capital budget, including an Environmental Protection Agency grant for the U4 Tank Rehab/Replacement Project, Federal Emergency Management Agency (FEMA) grant for the Brackney Landslide Area Pipeline Risk Reduction Project and a State of California grant for the Intertie 1 – Santa Cruz to Scotts Valley Project.

Operating Expenses

Operating expenses are trending 15% below the Adopted Budget. Salaries and wages are down 2% and employee benefit costs are down 22%, primarily due to the 15-17 vacant positions during the first nine months of FY 2024. The vacancy rate is approximately 12-14% of budgeted positions; the budgeted cost for personnel assumes a 9% vacancy rate. Approximately \$1.3 million in personnel expenses are charged to capital projects; the budgeted amount is \$749,000, which drove down the operating expenditures. Staff are encouraged to track hours spent on project-related work in order to accurately reflect the true cost of completing capital projects in accordance with generally accepted accounting principles.

Significant services, supplies, and other operating expenses which trended lower than the budget during this quarter are as follows:

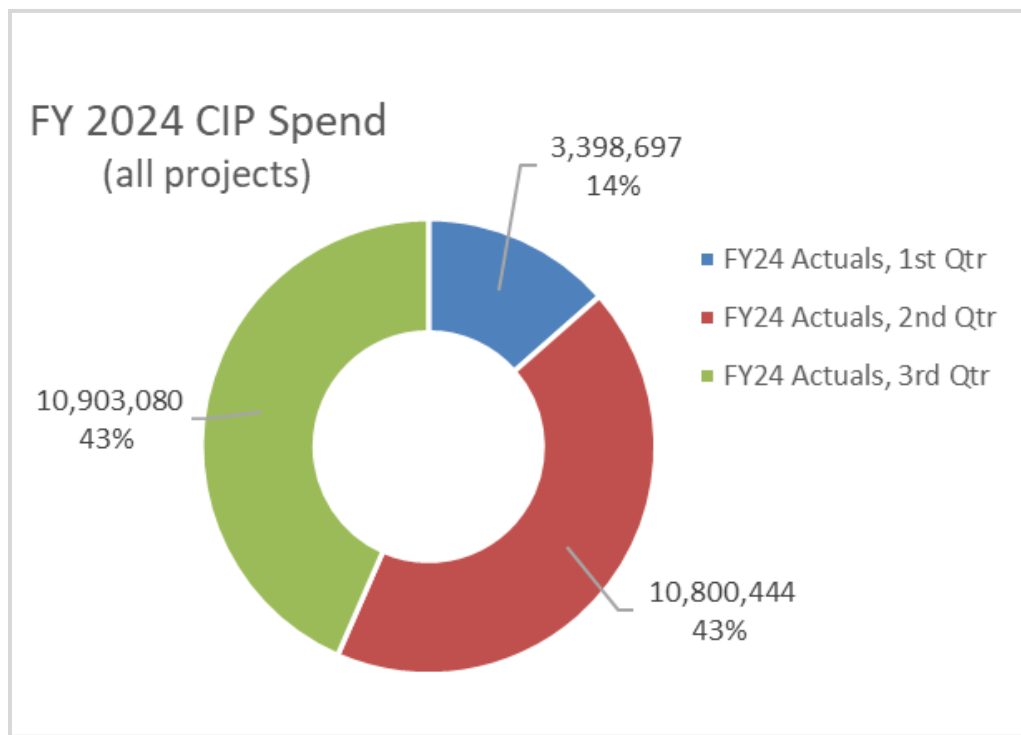
- Maintenance for water systems was under budget by \$533,000. Funding in this account is primarily spent on water quality monitoring and regulatory compliance, including fisheries biology support, juvenile salmonid and stream habitat support, and the Anadromous Salmonid Habitat Conservation Plan implementation. This continues to be under budget as these projects are reliant on the water rights project being completed.
- Other professional services were a total of \$332,000 below budget during this quarter. The largest expense in this category was the Badger meter-reading software licensing cost, which is paid monthly and is the largest encumbrance for the year at \$196,800, although only \$99,179 was billed in the first nine months. The second largest expense in this category paid in the last nine months was for a classification study for City of Santa Cruz Water Department (SCWD)'s customer service, customer assistance, and meter shop staff which totaled \$45,000. The third largest expense in this category was a \$30,000 charge paid to Abernathy Schwartz for the Lead and Copper Rule predictive modeling. Other expenses in this category pertain to outside laboratory water monitoring, water resource management, landscape management, communications, and graphics.
- Electricity costs for the first nine months were \$971,000, which is trending \$172,000 under the Adopted Budget.
- Chemical costs for the first nine months were \$563,000, which are trending \$286,000 less than the Adopted Budget. Chemical prices are now trending downward after increasing significantly due to COVID-related shortages.

One significant expense trending higher than predicted is Merchant Bank Fees, which are running \$169,000 over budget. At the current pace, these fees will exceed \$500,000 this year. These fees arise when credit cards are used by ratepayers. The fee is currently absorbed by the Water Department; however, discussion is underway to reassign the bank fee associated with credit card use to the customer.

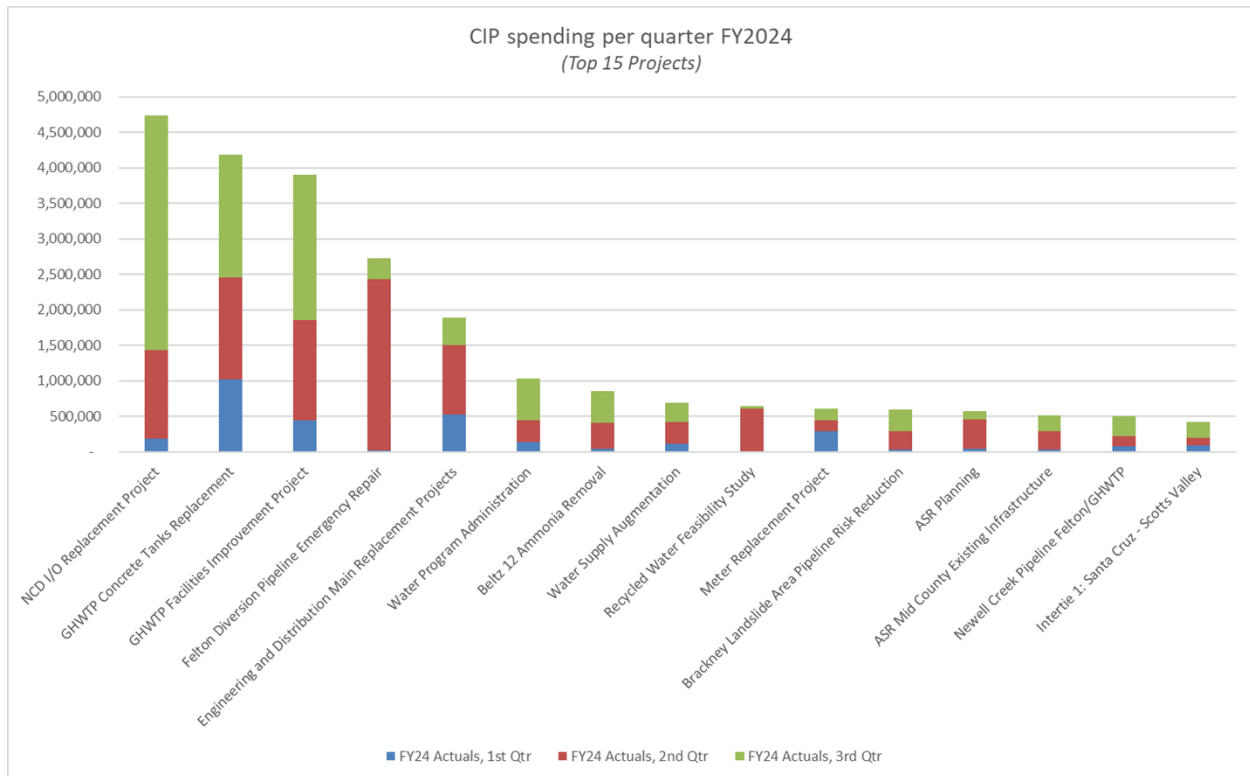
These highlighted operating expenses are paid from the Services, Supplies and Other line items.

Capital Investment Program (CIP)

FY 2024 spend on CIP projects through 03/31/24 was slightly over \$25.1 million. The following chart shows the overall spend per quarter.



As was mentioned in the FY 2024 1st Quarter Financial Report, the smaller expenses in the first quarter were primarily due to the Newell Creek Dam Inlet/Outlet Replacement (NCD I/O) Project as the project transitioned from Phase 1 construction (billed as bid work) to Phase 2 decommissioning (billed as time and materials) which required invoice corrections that were resolved in the 2nd quarter. The following chart shows how the NCD I/O Project expenses hit each quarter and provides the same detail for projects that exceed \$300,000 during this fiscal year.



The project schedules shown on the CIP section of the financial reports were updated for the following projects:

- The end date for the Recycled Water Feasibility Study was changed from 2023 to 2026 since the scope of the work has been defined to be inclusive of a broader range of supply alternatives.
- The Laguna Creek Diversion Retrofit Project and the Felton Diversion Pipeline Emergency Repair are now shown as complete.
- The completion of the Meter Replacement Project was changed from 2023 to 2024. The installation contractor completed work in 2023 and staff are near completion of complex and large meter installations.
- The completion date of the Graham Hill Water Treatment Plant (GHWTP) Gate Entrance Upgrades was also changed from 2023 to 2024 while the Department continues to wait for a utility pole to be moved by the utility company.
- The completion date of the CMMS Software Replacement was changed from 2023 to 2025 as the scope of the project was expanded to support data coming from the new water meter infrastructure.

Nine of our projects are receiving outside funding from five grants, two Drinking Water State Revolving Fund (DWSRF) loans, and a Water Infrastructure Finance and Innovation Act (WIFIA) loan. The following table provides details regarding the status of the outside funding sources. At the August Water Commission meeting, a more detailed report regarding Water Department debt is scheduled to be presented.

Table of Existing Funding Agreements

Table of Existing Funding Agreements

Project Name	Funding Source	% of Project Costs	Total Funding Amount	Total Revenues Collected as of 3/31/24	Revenues Collected in FY 2024 as of 3/31/24	Balance Available as of 3/31/24
ASR Mid County Existing Infrastructure	DWR Grant	11%	1,650,000	-	-	1,650,000
Brackney Landslide Area Pipeline Replacement (Phase 1)	FEMA Grant	67% of Phase 1	1,211,871	1,090,684	-	121,187
Intertie 1 - Santa Cruz-Scotts Valley	DWR Grant	53%	6,620,108	500,223	500,223	6,119,885
University Tank No. 4 Rehab/Replacement	Congressional Grant	15%	1,000,000	-	-	1,000,000
Water Supply Augmentation	DWR Grant	TBD	950,000	163,575	163,575	786,425
NCD I/O	DWSRF Loan	100%	103,453,000	82,319,026	4,926,860	21,133,974
GHWTP Concrete Tanks	DWSRF Loan	100%	45,900,000	24,777,926	5,257,956	21,122,074
ASR Mid County Existing Infrastructure	WIFIA Loan	49%	127,730,000	19,897,146	15,255,217	107,832,854
GHWTP Facility Improvements Project						
Newell Creek Pipeline - Felton to GHWTP						
University Tank No. 4 Rehab/Replacement						
Water Supply Augmentation						
			288,514,979	128,748,580	26,103,831	159,766,399

In addition to the above existing funding agreements, the Department has four grant applications in process. Below shows the status of the grant applications.

Table of Grant Agreements in Process

Project Name	Funding Source	% of Project Costs	Total Requested	Status
Brackney Landslide Area Pipeline Replacement (Phase 2)	FEMA Grant	35% of Phase 2	3,858,079	Approved, Notice of obligation in process
Felton Diversion Pipeline	FEMA & CalOES Grant	94%	2,701,417	Approved, Notice of obligation in process
GHWTP Facility Improvements Project	PFAS DWSRF Grant	6%	10,000,000	To be approved with DWSRF loan
Newell Creek Pipeline - Felton to GHWTP	Congressional Grant	2%	959,752	Approved, to be included in DWSRF loan

FISCAL IMPACT: None.

PROPOSED MOTION: Motion to accept the FY 2024 3rd Quarter Financial Report.

ATTACHMENTS:

1. Santa Cruz Water Department Financial Report

SANTA CRUZ WATER DEPARTMENT FINANCIAL REPORT

Fiscal Year 2023-24 through March 31, 2024

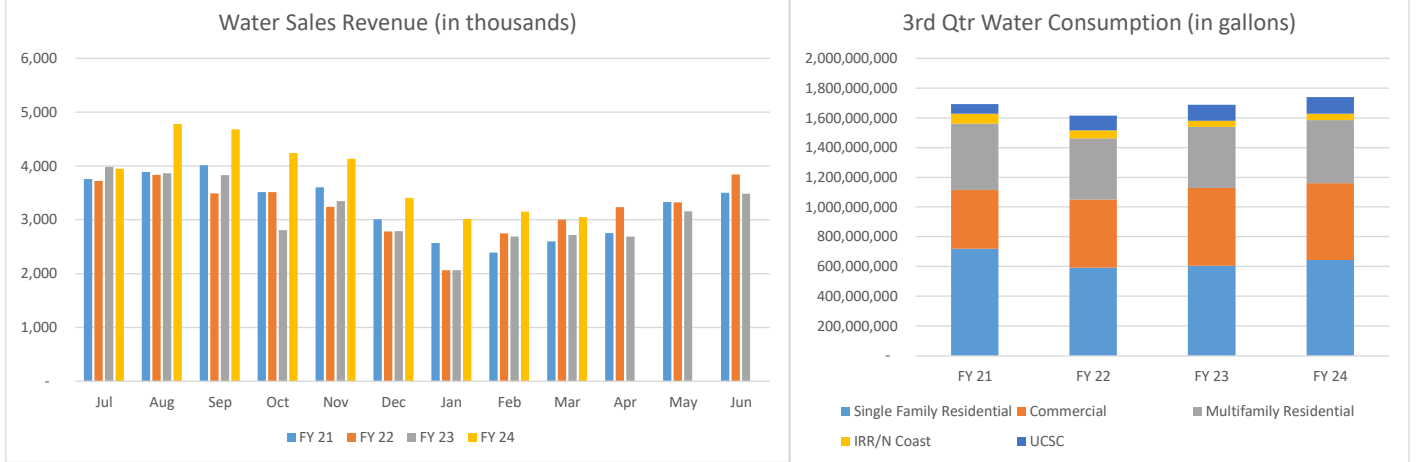
(Unaudited)



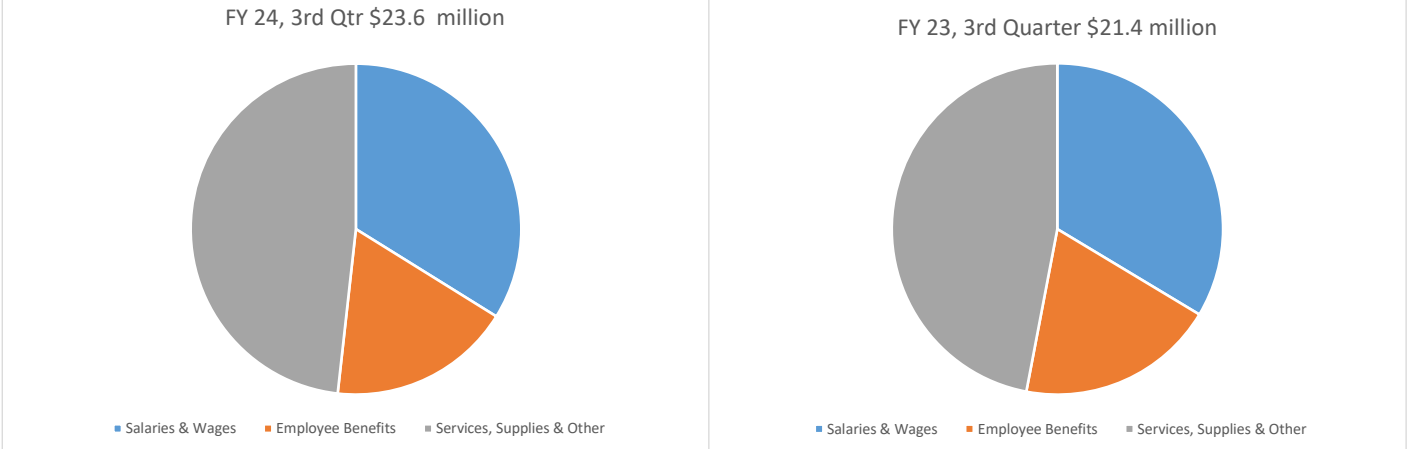
Financial Summary

	FY 2024 Adjusted Budget	YTD Budget	Actual	Actual vs. YTD Budget	
				Variance \$ +/-	Variance % +/-
Operating Revenues					
Water Sales	47,691,935	35,768,951	34,773,050	(995,901)	(3%)
Other Charges for Services	1,570,932	1,178,199	1,175,036	(3,163)	(%)
Other Revenues	498,777	374,083	236,515	(137,567)	(37%)
Grants	5,043,995	3,782,996	390,480	(3,392,516)	-
Investment Earnings	180,715	135,536	562,500	426,964	-
Total Operating Revenues	54,986,354	41,239,766	37,137,581	(4,102,184)	(10%)
Operating Expenses					
Salaries & Wages	10,933,325	8,199,993	8,001,519	(198,474)	(2%)
Employee Benefits	7,263,373	5,447,530	4,232,519	(1,215,010)	(22%)
Services, Supplies & Other	19,377,343	14,533,007	11,287,500	(3,245,507)	(22%)
Capital Outlay	576,816	432,612	105,184	(327,428)	(76%)
Debt Service - Principal & Interest	5,113,838	3,835,379	3,835,379	-	0%
Total Operating Expenses	43,264,694	32,448,521	27,462,100	(4,986,420)	(15%)
Net Operating Revenue (Loss)	11,721,660	8,791,245	9,675,481	-	-
Debt Service Coverage (Target >= 1.50x)	3.29x	3.29x	3.52x		

Revenues



Expenses



Cash

Fund Balances	YTD Balance	Year End Target Balance
711 - Enterprise Operations	12,843,900	9,407,060
713 - Rate Stabilization	6,898,694	10,000,000
715 - System Development Charges	7,515,438	N/A
716 - 90 Day Operating Reserve	8,951,804	9,407,060
717 - Emergency Reserve	3,063,008	3,000,000
718 - Mount Hermon June Beetle Endowment	145,864	144,000
719 - Equipment Replacement	597,520	700,000
Days' Cash (Includes only Funds 711 & 716)	209	180
Days' Cash Target	180	180

Note: State Revolving Fund (SRF) Loan funds receivable totaling \$7.0 million are due to SCWD as of 5/30/23. Average number of days waiting for the \$95 million reimbursed-to-date is 103. A \$50 million line of credit was obtained in June 2021 to ensure adequate cash to pay vendors.

CIP Summary: Fiscal Year 2024, 3rd Quarter	Prior Year Actuals	FY24 Actuals thru 3/31/24	Total Project Cost Estimate ⁽¹⁾ (escalated dollars)	Project Schedule
Project Titles				
WATER SUPPLY RESILIENCY & CLIMATE ADAPTATION PROJECTS				
<i>Water Supply Augmentation Strategy</i>				
Beltz Wellfield Aquifer Storage and Recovery				
ASR Planning	3,468,584	570,847	5,997,248	2019-2028
ASR Mid County Existing Infrastructure	727,865	515,194	11,239,422	2020-2032
ASR Mid County New Wells	-	-	700,610	2025-2030
Santa Margarita Aquifer Storage and Recovery and In Lieu Water Transfers and Exchanges				
ASR Santa Margarita Groundwater	23,382	6,026	343,243	2021-2028
ASR New Pipelines	-	-	-	
In Lieu Transfers and Exchanges	-	-	-	
Studies, Recycled Water, Climate Change, Aquifer Storage and Recovery				
Water Supply Augmentation	3,019,306	693,479	176,132,721	2019-2035
Recycled Water Feasibility Study	915,675	643,566	2,564,411	2018-2026
<i>Subtotal Water Supply Augmentation Strategy</i>	8,154,812	2,429,112	196,977,655	
<i>Subtotal Water Supply Resiliency and Climate Adaptation Projects</i>	8,154,812	2,429,112	196,977,655	
INFRASTRUCTURE RESILIENCY AND CLIMATE ADAPTATION				
<i>Raw Water Storage Projects</i>				
NCD I/O Replacement Project	90,947,902	4,741,973	101,190,939	2018-2024
Aerators at Loch Lomond	646,897	53,522	712,897	2018-2024
<i>Subtotal Raw Water Storage Projects</i>	91,594,799	4,795,495	101,903,836	
<i>Raw Water Diversion and Groundwater System Projects</i>				
Laguna Creek Diversion Retrofit	2,970,354	14,810	2,953,021	Completed
Tait Diversion Retrofit	575,373	4,730	10,294,485	2018-2030
Coast Pump Station Rehab/Replacement	-	-	11,894,222	2029-2033
Felton Diversion Pump Station Improvements	353,539	-	4,260,054	2020-2029
Beltz 12 Ammonia Removal	757,370	861,467	2,528,353	2021-2025
Beltz WTP Upgrades	304,628	198,208	18,281,125	2022-2028
<i>Subtotal Raw Water Diversion and Groundwater System Projects</i>	4,961,264	1,079,215	50,211,260	
<i>Raw Water Transmission</i>				
Newell Creek Pipeline Felton/GHWTP	3,386,004	504,986	41,982,557	2019-2027
Newell Creek Pipeline Felton/Loch Lomond	-	-	46,549,340	2027-2033
Brackney Landslide Area Pipeline Risk Reduction ⁽²⁾	2,099,659	603,853	14,439,908	2020-2026
North Coast Pipeline Repair/Replacement - Ph 4	-	-	89,691,553	2026-2032
Felton Diversion Pipeline Emergency Repair ⁽²⁾	181,357	2,729,756	3,356,736	Completed
<i>Subtotal Raw Water Transmission</i>	5,667,020	3,838,595	196,020,094	
<i>Surface Water Treatment</i>				
GHWTP Concrete Tanks Replacement	26,962,064	4,188,028	45,714,566	2018-2026
GHWTP Facilities Improvement Project	16,516,166	3,907,713	160,520,528	2018-2030
River Bank Filtration Study	1,003,775	-	7,225,332	2018-2028
GHWTP SCADA Radio System Replacement	2,520	74,430	247,344	On-going
GHWTP SCADA IO Hardware & Wiring Upgrade	-	-	244,688	2022-TBD
<i>Subtotal Surface Water Treatment</i>	44,484,525	8,170,170	213,952,458	
<i>Distribution System Storage, Water Main and Pressure Regulation, and Metering Projects</i>				
University Tank No. 4 Rehab/Replacement	787,109	293,073	6,714,841	2018-2027
Meter Replacement Project	12,557,629	615,740	14,016,438	2018-2024
Engineering and Distribution Main Replacement Projects ⁽³⁾	13,312,479	1,894,823	28,923,622	On-going
Distribution System Water Quality Improvements	41,760	-	119,139	2021-TBD
Facility & Infrastructure Improvements	10,359	215,572	8,617,604	On-going
Intertie 1: Santa Cruz - Scotts Valley ⁽²⁾	788,086	417,277	10,260,483	2022-2026
<i>Subtotal Distribution Storage, Wmain Pressure Reg, and Metering</i>	27,497,421	3,436,485	68,652,127	
<i>Subtotal Infrastructure Resiliency and Climate Adaptation</i>	174,205,029	21,319,960	630,739,775	
OTHER RISK MANAGEMENT AND RISK REDUCTION PROJECTS				
<i>Site Safety and Security</i>				
Security Camera & Building Access Upgrades	325,479	67,968	741,497	On-going
GHWTP Gate Entrance Upgrades	899,901	663	1,111,803	2020-2024
CMMS Software Replacement - Water Share	316,956	166,304	569,505	2022-2025
<i>Subtotal Site Safety and Security</i>	1,542,335	234,936	2,422,805	
<i>Staff Augmentation</i>				
Water Program Administration ⁽⁴⁾	2	1,034,902	13,574,444	On-going
<i>Subtotal Staff Augmentation</i>	2	1,034,902	13,574,444	
<i>Contingency</i>				
Management Reserve ⁽⁵⁾	-	-	11,369,962	On-going
<i>Subtotal Contingency</i>	-	-	11,369,962	
<i>Storage for Emergency Facility and System Repair Tools and Equipment</i>				
Union/Locust Admin Building Back Up Power Generator	12,549	14,233	100,000	2024
<i>Subtotal Storage for Emergency and System Repair</i>	12,549	14,233	100,000	
<i>Other Projects</i>				
Branciforte Streambank Restoration	86,625	69,078	815,583	TBD
<i>Subtotal Other Projects</i>	86,625	69,078	815,583	
<i>Subtotal Other Risk Management and Risk Reduction Projects</i>	1,641,511	1,353,149	28,282,794	
GRAND TOTAL	184,001,352	25,102,221	856,000,224	

⁽¹⁾ Project Cost Estimates are FY24 adopted budget plus FY24 adjustments/carry-forwards plus FY25-38 projections from Oct 2023.

⁽²⁾ Expenses are not adjusted for grant funding.

⁽³⁾ Prior year actuals for Main Replacements start in FY19.

⁽⁴⁾ Staff augmentation budget appropriations and actual expenses are transferred to specific projects during fiscal year-end process.

⁽⁵⁾ Management Reserve budget appropriations are transferred to specific projects upon Change Management approval.



WATER COMMISSION INFORMATION REPORT

DATE: 05/24/2024

AGENDA OF: 06/03/2024

TO: Water Commission

FROM: David Baum, Chief Financial Officer
Malissa Kaping, Principal Management Analyst

SUBJECT: City of Santa Cruz Water Department's Proposed Fiscal Year 2025
Operating and Fiscal Year 2025-29 Capital Investment Program Budgets

RECOMMENDATION: That the Water Commission authorize the Chair to send a letter to the City Council related to the City of Santa Cruz Water Department's Fiscal Year 2025 Budgets and financial position recommending the City of Santa Cruz Water Department's Budgets to the City Council.

BACKGROUND and DISCUSSION: On May 6, 2024, the Water Commission reviewed and provided feedback on the City of Santa Cruz Water Department (Water Department or Department)'s Proposed Fiscal Year (FY) 2025 Operating and FY 2025 – 29 Capital Investment Program (CIP) Budgets (Budgets), including an updated multi-year Pro Forma integrating information about the Water Department's Budgets and financial position. Several clarifying questions were discussed at the May Water Commission meeting and can be found in the minutes for that meeting. No changes were made to the documents.

In addition, the Water Commission authorized the Chair to work with staff to finalize a letter to the City Council related to the Water Department's FY 2025 Budgets and financial position, recommending the Water Department's Budgets to the City Council based on Water Commission input. This task has been completed, and the entire budget package is included as Attachment 1.

At the May 28, 2024 City Council meeting, the budget hearings took place and the budget will be considered for adoption at the June 11, 2024 meeting.

FISCAL IMPACT: Funds are available to support the FY 2025 Proposed Budgets as demonstrated in the Financial Pro Forma.

PROPOSED MOTION: Motion to authorize the Chair to send a letter to the City Council related to the City of Santa Cruz Water Department's Fiscal Year 2025 Budgets and financial position recommending the City of Santa Cruz Water Department's Budgets to the City Council.

ATTACHMENTS:

1. Water Commission FY 2025 Budget Recommendation Letter to City Council



WATER COMMISSION

212 Locust Street, Suite A, Santa Cruz, CA 95060 Phone: (831) 420-5200

June 4, 2024

Mayor Fred Keeley
Vice Mayor Renee Golder
Councilmember Sandy Brown
Councilmember Sonja Brunner
Councilmember Shebreh Kalantari-Johnson
Councilmember Scott Newsome
Councilmember Martine Watkins

Dear Mayor Keeley, Vice Mayor Golder, Councilmembers Brown, Brunner, Kalantari-Johnson, Newsome, and Watkins:

Re: Water Commission Recommendation on the City of Santa Cruz Water Department's Fiscal Year 2024-2025 Operating Budget and Capital Investment Program

RECOMMENDATIONS

The City of Santa Cruz Water Commission (Commission) is pleased to convey our recommendations regarding the Water Department (Department)'s Fiscal Year (FY) 2025 Recommended Operating Budget and Capital Investment Program (CIP). The Commission is basing these recommendations on the ongoing work focused on the Department's financial management and performance. This work has been conducted in publicly-noticed Commission meetings that have covered ongoing operations as well as planning and implementing capital projects, including detailed discussions of the Department's annual Operating Budget and CIP.

Our reviews and discussions have considered the Department's financial performance against the projections that underlie the 2021 Long-Range Financial Plan (LRFP), which is the key policy document upon which the Department's annual budget and capital planning are based. The 2021 LRFP was developed with the active engagement of the Commission, including being informed by the work of a Commission ad hoc subcommittee in mid-2019 to early 2020 that developed revenue requirements used in establishing the adopted FY 2023-2027 Water Rates.

The series of documents included as attachments to this letter were presented and discussed in detail during our review process. Based on our analyses, as summarized in the discussion below, we unanimously recommend the City Council's approval of the proposed Operating Budget and CIP.

OPERATING BUDGET

The Water Department's Recommended FY 2025 Operating Budget was developed to support the Department's mission to provide a reliable and high-quality potable water supply 24 hours per day, 7 days a week, and 365 days per year to a population of approximately 100,000 people.

Attachment 1, FY 2025 Proposed Operating Budget shows:

- Projected revenues for FY 2025, including water rate revenues and other revenues, of \$59 million, which is an anticipated 16% increase compared to FY 2024 revenues.
- The proposed Operating Budget for FY 2025 of \$48 million. This is 10% higher than the adopted FY 2024 Operating Budget. Drivers and trends are described below in Analytics, and in Attachment 3.

The Commission's recommendations to the City Council on the Department's FY 2025 Operating Budget are based on the Commission's ongoing engagement with staff to identify, understand, and effectively address the water system's challenges.

FY 2025-2029 CAPITAL INVESTMENT PROGRAM

The CIP budget for the five-year period FY 2025-2029 is \$310 million. The focus of the CIP is on improving infrastructure resiliency, water supply reliability, and adaptability to climate change. **Attachment 2** is a **CIP Summary**, broken down by project category, for the five-year CIP period FY 2025-2029.

The proposed CIP budget for FY 2025 is \$58 million. The FY 2025 funding level will be supplemented by a significant, unspent amount carried over from FY 2024. The carryover is associated with slower-than-anticipated CIP project completion for several large projects, partly due to weather conditions this past winter. Despite these delays, major progress has been made on several key CIP projects during FY 2024 including:

- The Newell Creek Dam Inlet/Outlet Replacement project was completed in spring of 2024; post construction activities will be completed in December of 2024 with a projected total project cost of \$100,500,000. The project replaced all of the infrastructure related to delivering water to and from the reservoir to improve system reliability and safety. Work continues on several restoration and mitigation projects that are part of this project.
- The \$157 million Graham Hill Water Treatment Plant (GHWTP) Facility Improvements Project (FIP) is needed to renovate the Department's only surface water treatment plant, which was originally commissioned in 1960. The project includes treatment process upgrades and improvements to the site, infrastructure, and structural components to enhance reliability

and resiliency of this critical facility against the impacts of climate change on source water quality. The progressive design-build team will complete the design phase in 2024 with construction occurring from May of 2025 through May of 2028.

- Separate from the GHWTP FIP, the GHWTP Concrete Tanks Replacement Project is a \$45.9 million replacement of three original concrete tanks that were constructed when the now 63-year-old GHWTP was built. This new infrastructure will allow for more efficient treatment of water. In FY 2024, the new solids and reclaimed water tanks became operational, and the contractor also finished major electrical work and retaining walls. Demolition of the final tank and construction of the third new tank commenced in early 2024. This project is expected to be complete in spring of 2025.
- Newell Creek Pipeline (NCP) Replacement – NCP is a 9.5-mile pipeline and the only means of delivering stored water from the Loch Lomond Reservoir to GHWTP. The pipeline was constructed in the 1960s and is subject to a number of vulnerabilities and reliability issues that necessitate its replacement. The NCP will be replaced in three phases, with Phases 1 and 2 being prioritized in the near-term due to the issues described below.

Phase 1 will replace the 4.4-mile-long segment from the Town of Felton to GHWTP. This segment is currently in a narrow, difficult to access right-of-way through Henry Cowell State Park and has been the site of multiple failures, creating emergency water supply conditions. The design, easement negotiations, and permitting are nearly complete; construction is scheduled to commence in March of 2025 with completion in spring of 2027. The forecasted construction cost for Phase 1 is \$41 million.

Phase 2 addresses the vulnerability of the NCP to landslide and earthquake activity in the vicinity of Brackney Road in Felton. The design is complete; construction will overlap with Phase 1 and is scheduled to be completed in early 2026. The forecasted construction cost for Phase 2 is \$14.2 million.

Phase 3 will replace the remaining segments from Loch Lomond Reservoir to Brackney and from the new Brackney segment to Felton. It is scheduled to begin design in 2027.

Replacement of the NCP will increase the reliability of the Department's access to Loch Lomond supply during very wet weather conditions and other natural hazards.

- Water Supply Augmentation work is focused on implementing the City Council-approved Securing Our Water Future Policy and developing supplemental water supply to improve the reliability of Santa Cruz's water supply. The near-term focus is on the ongoing evaluation and implementation of Aquifer Storage and Recovery (ASR) in the Mid-County Groundwater Basin (MCGB) as well as completing technical and feasibility analyses on other supply options including water transfers with other agencies, use of recycled water, and desalination.

In the MCGB underlying the eastern portion of the Department's water service area, ASR is being implemented with the design and construction of two permanent ASR wells scheduled

for completion in 2025-26. Design and construction of two additional ASR wells will follow. This will be the Department's first new water supply for the City of Santa Cruz since the 1960s.

- The Department continues collaborative efforts with Scotts Valley Water District on the design of a pipeline and pump station that will connect the water systems of the two agencies. This project is expected to go out to bid in early summer and be operational Winter of 2025.
- The \$3.1 million Felton Diversion Pipeline is a critical piece of water infrastructure that pumps water from the San Lorenzo River in Felton to Loch Lomond Reservoir. This pipeline helps fill the reservoir when reservoir levels are low and flows in the river are available to add to storage. After sustaining damage when Zayante Creek eroded an area around the pipeline during the January 2023 storms, this project repaired the pipeline and restored the stream bank in Zayante Creek. It was completed in the fall of 2023.

CIP FUNDING

Given the scale of the Department's CIP, a major focus over the last several years has been on securing the lowest cost for financing projects. The Department has succeeded in securing low-interest, long-term financing. This benefits ratepayers both now and in the future; relevant details for a few of these external funding sources are listed below.

Water Infrastructure Finance and Innovation Act (WIFIA)

Four projects are included in this loan: GHWTP FIP, Newell Creek Pipeline Replacement, Aquifer Storage and Recovery/Water Supply, and the University Tank #4 Replacement. The first loan in the amount of \$127.7 million closed on May 4, 2023. A second loan for an additional \$36 million will be available when needed. To date, \$20 million has been drawn from this loan.

Drinking Water State Revolving Loan (DWSRF)

- Both the Newell Creek Dam Inlet/Outlet Replacement Project and the GHWTP Concrete Tanks Project are being funded through the DWSRF program, with existing loan rates of 1.4%. Repayment for these loans commences once construction has been completed for the projects in 2024.

The following projects are being developed for potential **Future DWSRF** loan funding:

- The GHWTP FIP is being developed in a manner that will allow it to be considered for funding with DWSRF funds to cover either the entire project or the additional portion of the project's cost beyond the 49% committed through the WIFIA loan. The project has been approved for \$5 million in loan forgiveness for improvements to water treatment processes which may be increased to \$10 million in the current DWSRF Intended Use Plan under review now.

- Phase 1 of the Newell Creek Pipeline Replacement Project is also being submitted to the DWSRF for additional funding to cover either the entire project or the additional portion of the project's cost beyond the 49% committed through the WIFIA loan. A Congressional Community Funding Grant of \$960,000 has been awarded through the DWSRF loan program.

The Department continues to actively identify and pursue **Grant Funding** opportunities and has had some success and some disappointments. Successes include:

- The Santa Cruz Mid-County Groundwater Agency (MCGA) received a \$7.6 million grant from the California Department of Water Resources as part of the state's Groundwater Sustainability Plan Implementation Grant program.

This grant is supporting additional project development work for both the Department's ASR program in the MCGA as well as for Soquel Creek Water District (District)'s Pure Water Soquel Project. The City of Santa Cruz and the District are working collaboratively with the MCGA on the implementation of this work, which also includes funding for an additional well for each agency.

- Since 2017, the Department has been pursuing Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program (HMGP) funding for replacement of the Brackney Landslide Area segment of the NCP Replacement. The Brackney segment has received funding for design work and a commitment for funding of 35% of the anticipated construction cost.
- The University Tank No. 4 was awarded a Congressional Community Funding grant of \$1,000,000 for construction which will begin in summer.

One consequence of grants, DWSRF, and many other sources of low-interest loans is that funds are disbursed on a reimbursable basis. This means that the Department must have the cash to pay vendors and meet its other financial obligations and then file claims for reimbursement from approved loan funds after the costs are incurred. This approach introduces significant cash-flow challenges into the Department's operation. To address these challenges, the Department obtained a \$25 million short-term line of credit that can be used as bridge funding over the coming several years while significant DWSRF projects are under construction.

ANALYTICS

Operating Budget Analytics

Attachment 3 is the Department's annual comparative **Budget Analytics** prepared for the Commission to use in its annual review of the Department's Operating Budget.

Using budget analytic reports, the Commission actively tracks several key indicators of financial health. For example, one of these key indicators is how actual revenues generated

by water sales compare with revenue projections. Tracking this metric helps both staff and Commissioners focus on the accuracy of our system for projecting revenues, which allows us to identify and implement refinements to our projections in the event we are over- or under-forecasting.

Another metric being tracked is highlighted in Figure 1 of **Attachment 3**, which shows the Department routinely underspending its adopted budget by about 15%. Over the last several budget cycles, the Department has taken steps to better align proposed operating budgets with anticipated spending levels. To this end, Department staff have worked with City of Santa Cruz Finance staff to integrate personnel cost savings into projected personnel costs. This collaborative approach is effective at refining budget projections as personnel cost savings typically accrue due to routine staff vacancies while personnel costs typically account for about 40% of the Operating Budget.

Commissioners are always impressed by the staff's knowledge and ability to concisely describe circumstances and conditions across the Department that influence actual spending from year-to-year as well as projected spending for the next fiscal year and beyond. The Budget Analytics and other analyses used by the Department's finance section and leadership team are helpful in annual budgeting and as part of ongoing financial planning and periodic work to update the cost-of-service analysis, water rate structure, and future water rates. Staff have demonstrated a commitment to accurately highlight trends that support a greater understanding of financial changes at both the organization and section levels.

Financial Pro Forma

Commissioners commend the Department for the financial analysis and modeling tools that they have developed and applied including the **FY 2025-2029 Financial Pro Forma (Attachment 4)**. This financial forecasting tool helps put the proposed Budgets in an appropriate and understandable context.

For the last five years, the Commission's budget review has focused heavily on how the Department's proposed Operating Budgets and CIP influence potential customer rate increases and achieve the financial metrics that the City Council set for the Department when it adopted the 2016 LRFP and the updated 2021 LRFP.

The Financial Pro Forma is a key part of the Department's financial planning work. It provides the Department with a model that supports the Commission and the City Council with a comprehensive, five-year view of the Department's revenue requirements, expenditures, and projected use of debt funding as well as the resulting debt service for capital investments.

The one-page Financial Pro Forma provides a long-range view of operating and capital spending, performance related to key financial metrics such as debt service coverage, reserve levels, and performance on reserve targets, and illustrates how assumptions about capital spending and operating costs (including salary, benefits, and pension obligations) will affect revenue requirements over time. Department staff have been transparent in describing the key

assumptions driving the financial model, and Commissioners have received detailed and thoughtful answers to questions about various aspects of the results presented in the Financial Pro Forma.

Quarterly Reporting

As the Commission has worked with the Department on budget and financial planning over the last several years, the Commission has received regular updates on the Department's finances through the quarterly financial reports. **Attachment 5** is the most recent Quarterly Financial Report for FY 2024.


These reports provide the Commission with an ongoing ability to track progress, and to identify and discuss issues as the year develops. The Commission's key takeaway from these efforts is that the Department has a well-considered LRFP and strategy – a plan which has continued to evolve and improve based on Department staff increasing their familiarity with this essential analytical and planning tool.

CONCLUSION

In closing, the Water Commission unanimously approved a motion in support of the City Council adopting the Water Department's proposed FY 2025 Operating Budget and CIP at the meeting on June 3, 2024. Our careful review of these proposals shows that they have been developed using realistic assumptions that are well aligned with the financial policies and assumptions approved by the Council in its 2021 action approving the Department's LRFP.

We appreciate this opportunity to provide our recommendation to the City Council and are available to answer any questions you may have.

Sincerely,



Justin Burks
Chair, City of Santa Cruz Water Commission

cc: Matt Huffaker, City Manager
Members of the City of Santa Cruz Water Commission
Heidi R. Luckenbach City of Santa Cruz Water Director

Attachments:

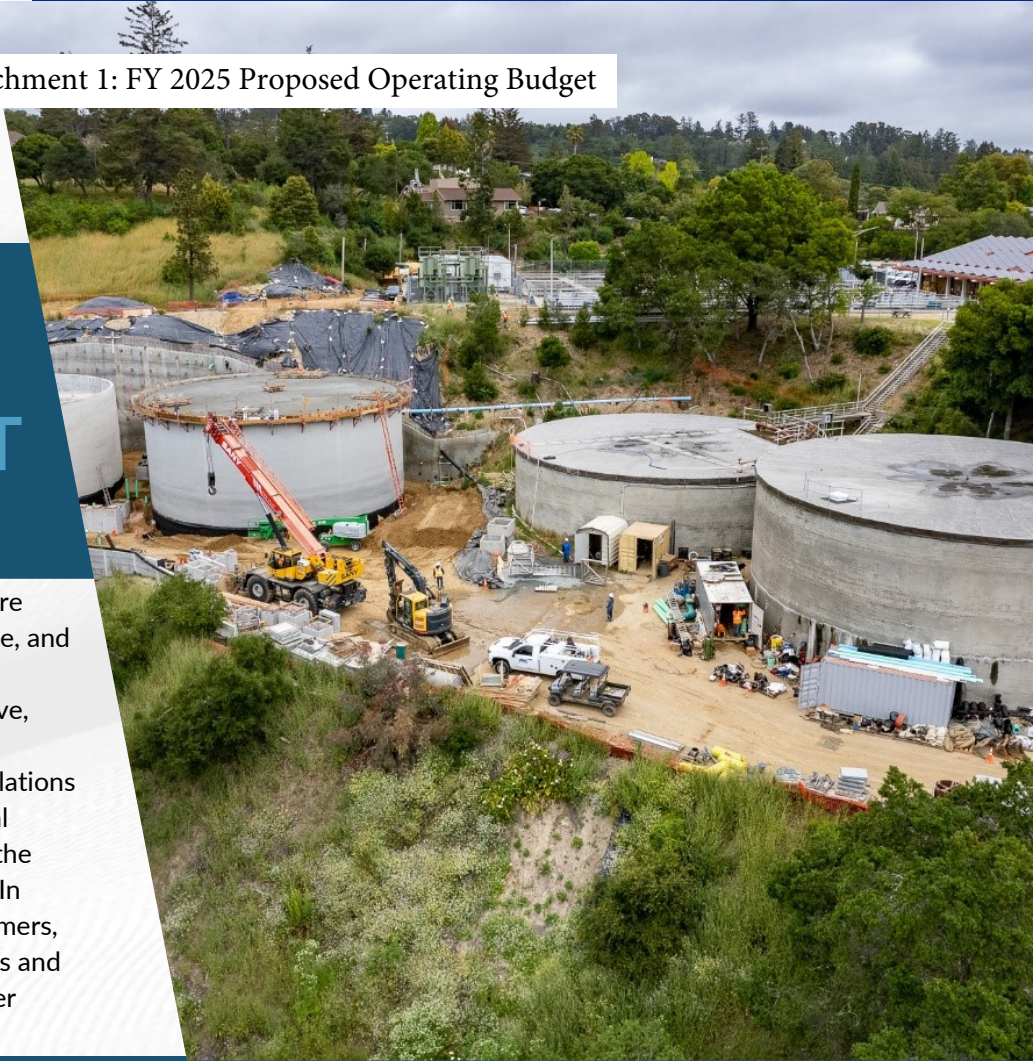
Attachment 1 – Water Department FY 2025 Proposed Operating Budget
Attachment 2 – Water Department FY 2025-FY 2029 CIP Summary
Attachment 3 – Water Department FY 2025 Budget Analytics

Attachment 4 – Water Department FY 2025 Financial Pro Forma
Attachment 5 – Example of Quarterly Financial Reports Prepared for and Distributed to the
Water Commission



WATER DEPARTMENT

The mission of the Water Department is to ensure public health and safety by providing a clean, safe, and reliable supply of water. We strive to serve the community in a courteous, efficient, cost-effective, and environmentally sustainable manner. We monitor water quality and have had zero violations of drinking water standards. We protect the local watersheds our drinking water comes from and the operation of the Loch Lomond Recreation Area. In addition to meeting the daily needs of our customers, the department is developing long-term solutions and collaborative partnerships with neighboring water agencies.



Our Responsibilities Include:

- ✔ Collection of Water
- ✔ Production of Drinking Water
- ✔ Water Treatment
- ✔ Water Distribution
- ✔ Water Storage
- ✔ Monitoring of Drinking Water

Contact Us:

- ☎ 831-420-5200
- 🌐 www.cityofsantacruz.com/government/city-departments/water
- 📍 212 Locust St., Santa Cruz

- 💧 *Graham Hill Water Treatment Plant*
715 Graham Hill Rd.
- 💧 *Loch Lomond Reservoir*
100 Loch Lomond Way, Felton, CA
- 💧 *Water Meter Shop*
1125 River St.
- 💧 *Water Distribution*
1214 River St.
- 💧 *Water Resources Management*
123 Jewell St.

Core Services

Every day, department staff work hard to produce and deliver millions of gallons of water to nearly 100,000 customers in Santa Cruz and several other parts of the county. Staff perform daily utility, land, and natural resource management activities needed to provide reliable, high quality water service to our community. In addition to these daily duties, the department is undergoing a major reinvestment in water infrastructure and water supply augmentation initiatives to adapt to climate change and ensure the community continues to receive clean, safe, and reliable drinking water. This includes upgrades to the water treatment plant, improvements to the Loch Lomond dam, the replacement of all system meters, and projects to augment our local water supply. To perform this work, the Water Department is organized into four areas: Operations; Engineering; Customer Service; and Administration.

Operations - The Operations group is responsible for managing the watersheds; collecting, treating, and testing untreated and treated water; and storing and distributing treated water to our customers. The group includes the following sections: Water Resources; Water Production; Water Quality Control (laboratory); Distribution; and the Water Recreation Facility (Loch Lomond Reservoir).

- The Water Resources Management section is responsible for drinking water source protection, environmental regulatory compliance, and general natural resource management. The section coordinates environmental projects related to water rights, water supply, habitat conservation, and environmental resource protection.
- The Water Production section is responsible for production, operation, and maintenance of water storage,

diversion, collection, pumping, and treatment facilities from all sources throughout the system. This 24/7 work is made more challenging with the Concrete Tank Replacement project underway and planned upgrades to the Graham Hill Water Treatment Plant soon. Despite the challenges presented, staff continue to produce millions of gallons of water for customers daily.

- The Water Quality Control (laboratory) section performs all water quality testing and oversees matters pertaining to water quality control to maintain compliance with State and Federal standards and for planning for future treatment needs.
- The Water Distribution section is responsible for the maintenance and operation of all transmission mains, distribution mains, service lines, and hydrants in the service area. Distribution staff also replace significant segments of distribution mains as part of the Capital Investment Program (CIP).
- The Water Recreation Facility section operates and maintains Loch Lomond Recreation Area. This section is also responsible for patrolling watershed property and protecting source water quality. Watershed Rangers also provide in-person watershed education programs for local elementary school children at Loch Lomond.

Engineering - The Water Engineering section is composed of two main functions: Engineering and Utility and Environmental Planning.

- The Water Engineering section provides engineering, planning, project design, and construction management necessary for water facilities, as well as evaluation and installation of water-saving technologies. The section keeps current

with new technologies and water quality issues, remaining sensitive to mitigation of environmental impacts; reviews all requests for water services; maintains record of facilities, installations, and maps; and oversees the Backflow Prevention Program. In 2017, the department embarked on an ambitious system-wide reinvestment with the Engineering section at the helm. This program includes the replacement of large storage tanks, pipelines, and the exploration of increasing storage in underground aquifers in partnership with neighboring agencies.

- The Utility and Environmental Planning group helps the department adequately plan for the impacts of climate change and building a resilient water system. Foundational documents such as the Urban Water Management Plan guide future projects by ensuring there are adequate water supplies. In addition, there are numerous Federal, State, and local environmental laws the department must comply with to complete the planned infrastructure investments in the water system.

Customer Service - The Customer Service group consists of three sections: Customer Service; the Meter Shop; and Customer Assistance. These three sections interface with the public frequently and strive to provide excellent customer service.

- The Customer Service section (Santa Cruz Municipal Utilities – SCMU) provides customer service for water, sewer, refuse, and recycling services to the residents and businesses of the City of Santa Cruz, plus water services to other parts of the county. This section manages utility accounts and billing, processes opening and

closing of accounts, and provides service in response to customer requests.

- The Meter Shop section is responsible for reading, inspecting, installing, maintaining, and replacing water meters in the service area. As part of a large capital project, all water meters in the service area are being replaced. The new meters will give water customers more timely and accurate usage information as well as improve the billing process.
- The Customer Assistance section will help customers resolve leaks and implement a water affordability program for low-income households.

Administration - The Water Administration section coordinates and manages department business by focusing on the following operational areas: human resources, finances, community relations, safety, and regulatory compliance. Administration is responsible for maintaining a rate structure that reflects cost-of-service, solicits Federal, State, and other funds to finance the department's CIP, and ensures adequate financial reserves. This section also facilitates the communication and interaction with the Water Commission, City Council, City Manager's Office, and regulatory agencies.



Accomplishments and Goals

FY 2024 Accomplishments	Fiscal Sustainability & Transparency	Strong Business es & Vibrant Downtown	Housing	Homelessness Response	Public Safety & Community Well-Being	Natural & Built Infrastructure	Thriving Organization
Issued a draft Environmental Impact Report for the Graham Hill Water Treatment Plant (GHWTP) Facility Improvement Project 🏛️🌲❤️	X					X	
Reached a significant milestone for the GHWTP Tanks Replacement Project with two of three tanks in service 🏛️🌲❤️	X					X	
Initiated a process to adopt a new Enterprise Resource Planning (ERP) software to replace the Utility Billing System 🏛️🌲❤️	X						X
Enhanced water system infrastructure reliability with the replacement of pipelines in Laguna, Majors, and Allegro Streets 🏛️🌲❤️	X					X	
Commissioned TESLA battery packs at the largest energy-use facility, the Coast Pump Station 🏛️🌲❤️	X					X	
Secured a \$128 million, 3.77% interest rate, 35-year, Water Infrastructure Finance and Innovation Act (WIFIA) loan to fund four Capital Improvement Program projects 🏛️🌲❤️	X					X	
Completed the Felton Diversion Pipeline Emergency Repair after damage sustained in the 2022-2023 Winter storms 🏛️🌲❤️	X					X	
Achieved 100% compliance with safe drinking water standards 🏛️🌲❤️	X					X	
Received certification from City Council of the final Environmental Impact Report for the Anadromous Salmonid Habitat Conservation Plan 🏛️🌲❤️	X					X	

FY 2025 Goals	Fiscal Sustainability & Transparency	Strong Business es & Vibrant Downtown	Housing	Homelessness Response	Public Safety & Community Well-Being	Natural & Built Infrastructure	Thriving Organization
Improve water system reliability by converting Beltz 8 and 12 wells into permanent Aquifer Storage and Recovery wells 🏛️🌲❤️						X	
Commence construction on two pipelines (Brackney Landslide Risk Reduction project and the Newell Creek Pipeline- Felton to GHWTP) to enhance reliability of water delivery 🏛️🌲❤️	X					X	
Begin construction on an intertie between the City of Santa Cruz and Scotts Valley Water District to augment THE City’s water supply and facilitate regional collaboration 🏛️🌲❤️	X					X	
Ensure reliable water supply to west-Santa Cruz and UCSC by starting construction on the 400,000-gallon U4 Tank replacement project 🏛️🌲❤️	X					X	
Enhance water system infrastructure with the replacement of pipelines in Spring Street between High Street & Laurent Street 🏛️🌲❤️	X					X	
Upgrade power systems at GHWTP to increase power transfer reliability by eliminating points of failure 🏛️🌲❤️	X					X	
Augment water supply reliability by improving water extraction equipment at Tait Wells 1B, 3B, 4 and Beltz Well 10 🏛️🌲❤️	X					X	
Secure up to \$41 million, 2.3% interest rate, 30-year funding from the Drinking Water State Revolving Fund to complete the Newell Creek Pipeline 🏛️🌲❤️	X						

Workload Indicators and Performance Measures

Workload Indicators	Strategic Plan Focus Area	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Estimate	FY 2025 Goal
Drinking water consumed (billions of gallons)	Public Safety & Community Well-Being	2.25	2.22	2.24	2.33	2.47
Number of phone calls, emails and lobby visits handled by Santa Cruz Municipal Utilities' Customer Service Unit ⚖️ 🌲 ❤️	Thriving Organization	64,000	49,664	57,141	50,000	50,000
Amount of dollars of new construction investments (in millions) ⚖️ 🌲 ❤️	Natural & Built Infrastructure	\$46.0	\$52.7	\$49.0	\$45.3	\$58.2

Performance Measures	Strategic Plan Focus Area	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Estimate	FY 2025 Goal
Compliance with drinking water standards ⚖️ 🌲 ❤️	Public Safety & Community Well-Being	100%	100%	100%	100%	100%
Number of workers comp claims requiring employee absence greater than 30 days	Thriving Organization; Public Safety & Community Well-Being	0	0	1	0	0
Maintain excellent bond ratings to ensure favorable borrowing rates thereby reducing cost to customers ⚖️ 🌲 ❤️	Fiscal Sustainability & Transparency; Thriving Organization	AA-/A+	AA-/A-	AA-/A-	AA-/A-	AA-/A-
Percentage of customer bills paid within 60 days*	Fiscal Sustainability & Transparency	91%	97%	94%	97%	97%

* The Governor's Executive Order prohibited water shutoff from 4/2/20 to 12/31/21. Accordingly, FY21 is higher than normal delinquency rates. Also, late payment penalties were not reinstated until July 1, 2023.

Budget Summary - Water

	Fiscal Year* 2023 Actuals	Fiscal Year 2024			Fiscal Year 2025 Proposed
		Adopted Budget	Amended* Budget	Year-End Estimate	
EXPENDITURES BY CHARACTER:					
Personnel Services	15,109,353	17,930,284	18,235,636	16,419,121	20,053,023
Services, Supplies, and Other Charges	14,066,473	18,381,436	18,763,829	16,638,933	19,967,517
Capital Outlay	554,625	510,732	626,816	133,766	536,400
Debt Service	10,832,871	6,017,146	6,017,146	6,284,588	7,271,880
Total Expenditures	<u>40,563,323</u>	<u>42,839,598</u>	<u>43,643,426</u>	<u>39,476,408</u>	<u>47,828,820</u>
EXPENDITURES BY ACTIVITY:					
Water Administration	7101 6,221,176	7,738,018	7,984,270	7,628,173	8,683,772
Water Engineering	7102 2,437,009	3,283,373	3,563,662	2,721,511	4,004,086
Water Customer Services	7103 2,237,645	2,430,032	2,442,200	2,173,191	2,721,229
Water Conservation	7104 757,097	1,190,522	1,191,538	681,083	1,161,850
Water Resources	7105 2,017,164	2,713,228	2,567,847	2,258,366	2,832,022
Water Production	7106 6,659,390	8,271,435	8,611,690	7,800,193	9,325,113
Water Quality	7107 1,852,742	2,373,579	2,373,579	2,140,669	2,511,185
Water Distribution	7108 5,012,759	5,491,619	5,539,762	4,674,961	5,845,395
Water Recreation	7109 1,372,297	1,467,611	1,473,572	1,499,440	1,645,202
Water Operations	7110 364,875	749,490	750,476	708,215	727,582
Water Meter Shop	7113 990,578	1,293,545	1,307,683	986,018	1,354,505
Water Debt Service	7140 10,640,589	5,837,146	5,837,146	6,204,588	7,016,880
Subtotal Other Funds	<u>40,563,323</u>	<u>42,839,598</u>	<u>43,643,426</u>	<u>39,476,408</u>	<u>47,828,820</u>
Total Expenditures	<u>40,563,323</u>	<u>42,839,598</u>	<u>43,643,426</u>	<u>39,476,408</u>	<u>47,828,820</u>
RESOURCES BY FUND:					
Technology Surcharge	295 -	-	6,800	-	-
Water	711 37,608,775	46,670,984	46,679,117	43,131,043	55,043,799
Water Rate Stabilization Fund	713 2,801,970	3,082,527	3,082,527	3,163,368	3,301,080
Water System Development Fees Fund	715 1,646,801	1,042,612	1,042,612	418,000	420,000
Total Resources	<u>42,057,546</u>	<u>50,796,123</u>	<u>50,811,056</u>	<u>46,712,411</u>	<u>58,764,879</u>
	FY 2023			FY 2024	FY 2025
TOTAL AUTHORIZED PERSONNEL:	<u>121.25</u>			<u>123.25</u>	<u>126.25</u>

*Sums may have discrepancies due to rounding

Staffing

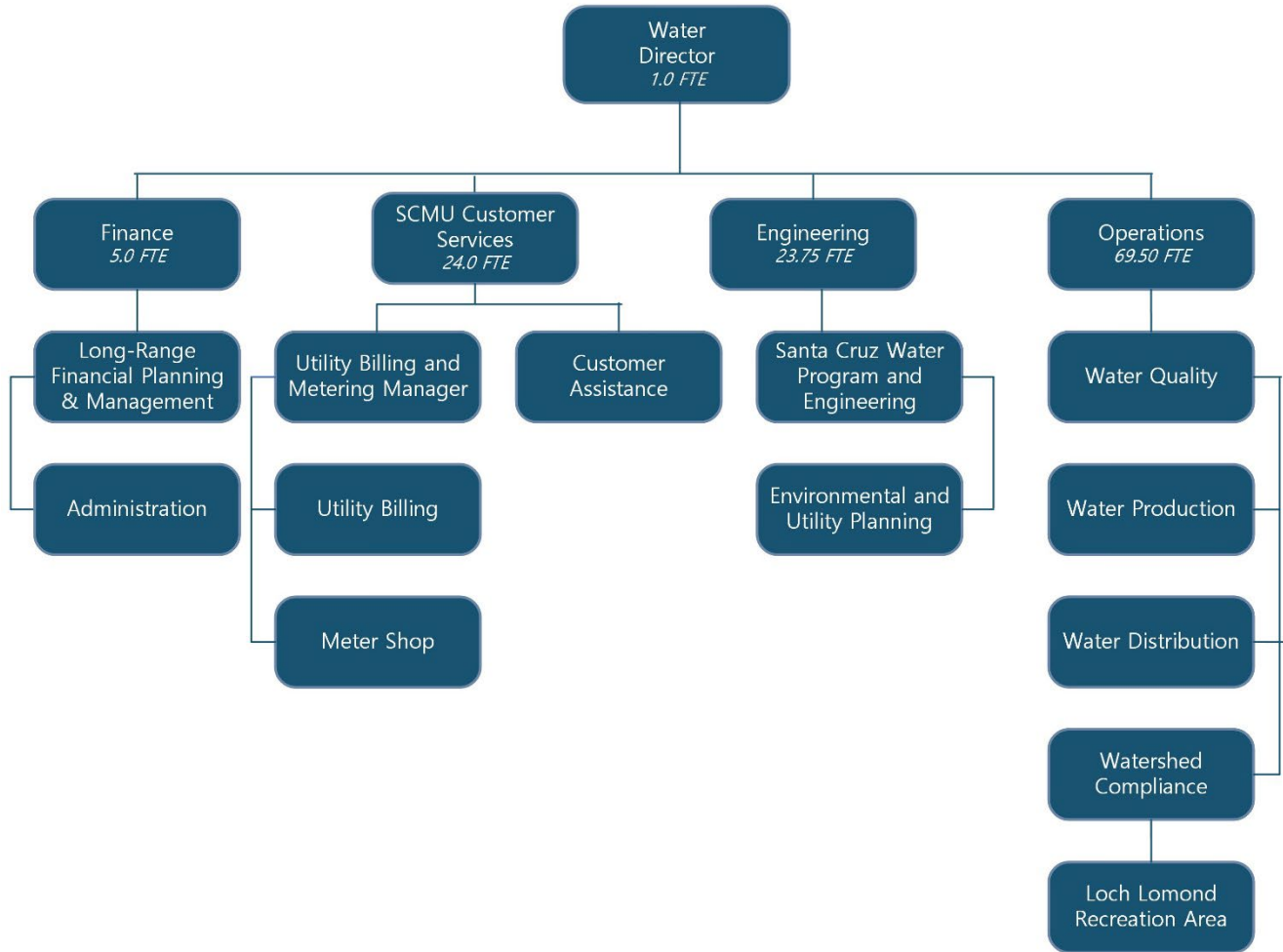
Positions	FY 2022 Amended*	FY 2023 Amended*	FY 2024 Amended*	FY 2025 Proposed	FY 2025 Change
Administrative Assistant I/II	2.00	2.00	2.00	2.00	-
Administrative Assistant III	2.00	2.00	2.00	2.00	-
Administrative Assistant III- Limited Term	-	-	-	1.00	1.00
Assistant Engineer I/II	4.00	4.00	4.00	4.00	-
Associate Planner I/II	3.00	3.00	4.00	4.00	-
Associate Professional Engineer	4.75	4.75	4.75	4.75	-
Chief Ranger	1.00	1.00	1.00	1.00	-
Community Relations Specialist**	1.00	1.00	-	-	-
Customer Service Manager	1.00	1.00	1.00	1.00	-
Deputy Water Director/Engineering Mgr	1.00	1.00	1.00	1.00	-
Deputy Water Director/Operations Mgr	1.00	1.00	1.00	1.00	-
Director of Water Department	1.00	1.00	1.00	1.00	-
Engineering Associate	1.00	1.00	1.00	1.00	-
Engineering Technician	2.00	3.00	3.00	3.00	-
Environmental Microbiologist I/II/III	2.00	2.00	2.00	2.00	-
Environmental Programs Analyst I/II	1.00	1.00	3.00	3.00	-
Laboratory Technician	2.00	2.00	2.00	2.00	-
Management Analyst	3.00	3.00	3.00	3.00	-
Principal Management Analyst	2.00	2.00	2.00	2.00	-
Principal Planner	1.00	1.00	1.00	1.00	-
Ranger I/II	3.00	3.00	3.00	3.00	-
Ranger Assistant	3.50	3.50	3.50	3.50	-
Senior Electrician	1.00	1.00	1.00	1.00	-
Senior Professional Engineer	1.00	1.00	2.00	2.00	-
Senior Ranger	2.00	2.00	2.00	2.00	-
Senior Water Distribution Operator	6.00	6.00	6.00	6.00	-
Superintendent of Water Treatment & Production	1.00	1.00	1.00	1.00	-
Superintendent of Water Distribution	1.00	1.00	1.00	1.00	-
Utility Account Specialist	4.00	4.00	4.00	4.00	-
Utility Maintenance Technician	4.00	4.00	4.00	4.00	-
Utility Service Field Technician I/II	2.00	2.00	2.00	2.00	-
Utility Service Representative I/II	6.00	6.00	6.00	6.00	-
Utility Service Representative I/II- Limited Term	-	-	-	2.00	2.00
Utility Supervisor	1.00	1.00	1.00	1.00	-
Water Chief Financial Officer	1.00	1.00	1.00	1.00	-
Water Conservation Representative	2.00	2.00	-	-	-
Water Distribution Crew Leader III/IV	6.00	6.00	6.00	6.00	-
Water Distribution Operator II/ III	9.00	9.00	9.00	9.00	-
Water Distribution Sup V Chief Distribution Operator	1.00	1.00	1.00	1.00	-
Water Facilities Electrical/Instr Tech II/III	1.00	1.00	1.00	1.00	-

Positions (continued)	FY 2022 Amended*	FY 2023 Amended*	FY 2024 Amended*	FY 2025 Proposed	FY 2025 Change
Water Facilities Field Supervisor	1.00	2.00	2.00	2.00	-
Water Facilities Mechanical Tech II/III	2.00	2.00	2.00	2.00	-
Water Facilities Mechanical Supervisor	1.00	1.00	1.00	1.00	-
Water Meter Specialist I/II	3.00	3.00	3.00	3.00	-
Water Meter Specialist Lead	-	-	1.00	1.00	-
Water Meter Supervisor	1.00	1.00	1.00	1.00	-
Water Meter Technician	1.00	1.00	1.00	1.00	-
Water Quality Chemist I/II/III	2.00	2.00	2.00	2.00	-
Water Quality Manager	1.00	1.00	1.00	1.00	-
Water Resources Analyst	3.00	3.00	3.00	3.00	-
Water Resources Supervisor	1.00	1.00	1.00	1.00	-
Water SCADA Analyst	-	1.00	1.00	1.00	-
Water Treatment Operator II/III/IV	8.00	8.00	8.00	8.00	-
Water Treatment OIT II/III/IV	1.00	1.00	1.00	1.00	-
Water Treatment Sup IV/V-Chief Plant Operator	1.00	1.00	1.00	1.00	-
Watershed Compliance Manager	1.00	1.00	1.00	1.00	-
Total	118.25	121.25	123.25	126.25	3.00

*Amended salary authorizations are adopted staffing plus any mid-year adjustments

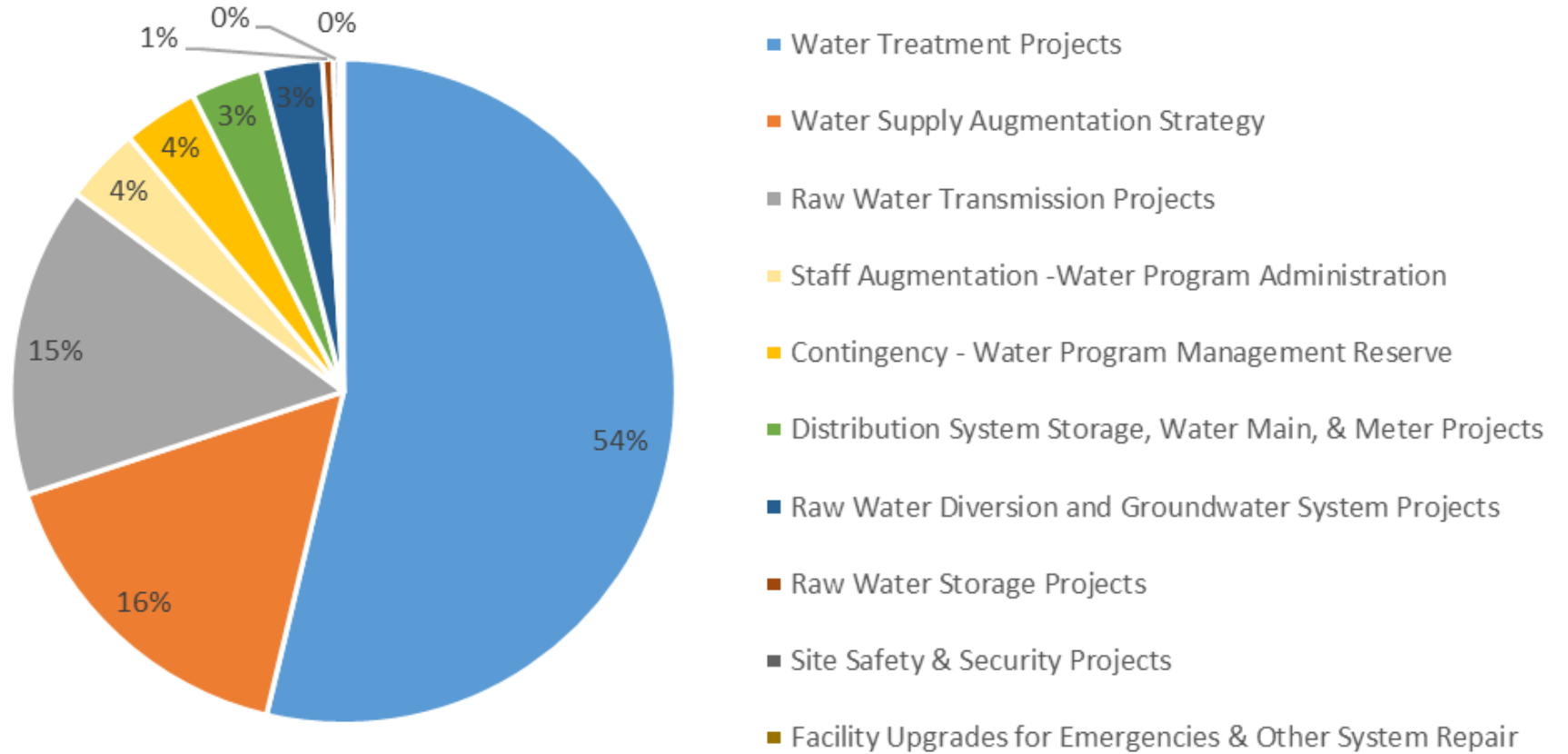
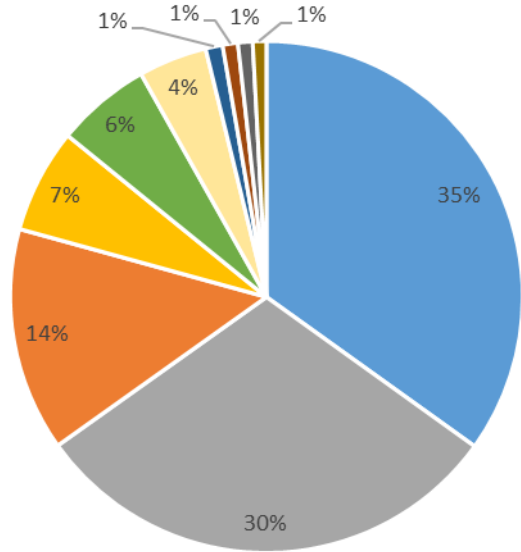
** In FY 2024, 1.00 FTE Community Relations Specialist began reporting to City Manager's Office

Organization Chart



FY2025 - FY2029 Spend Estimate (\$309.9 Million)

FY2025 Spend Estimate (\$58 Million)



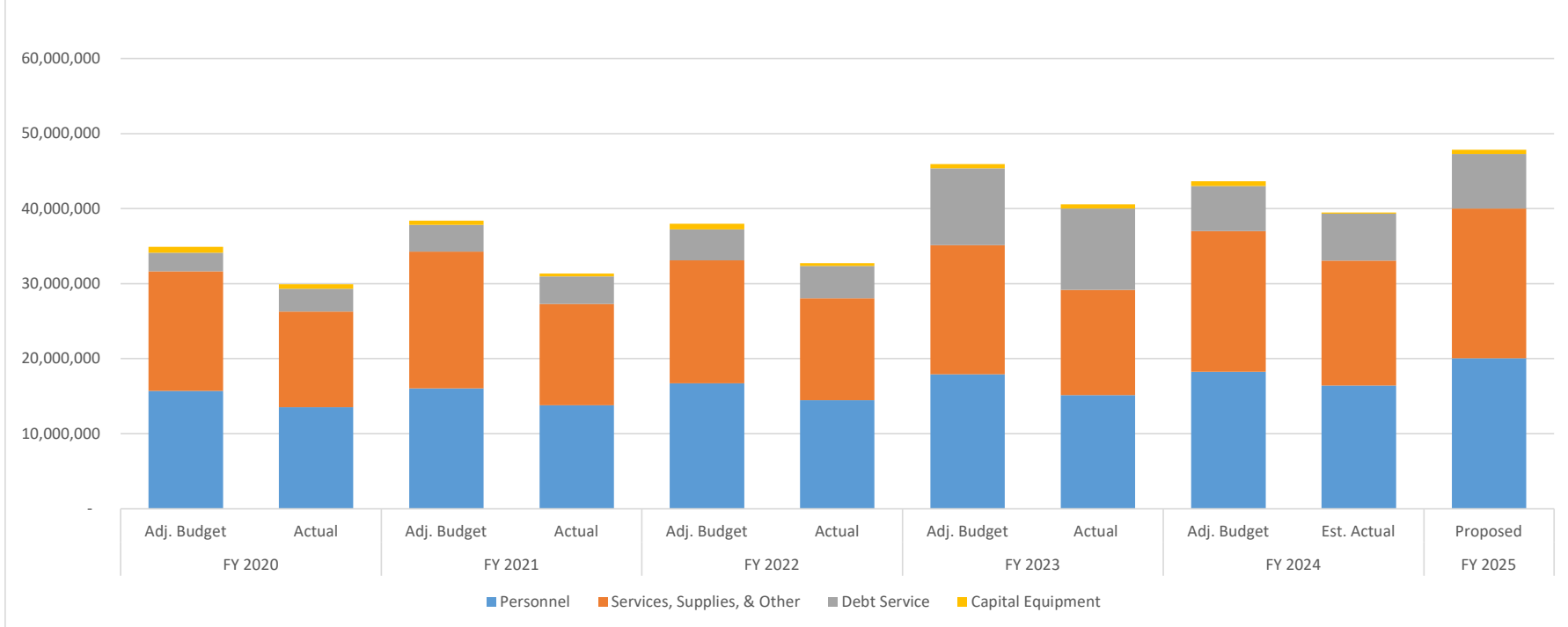
FY 2025-29 CIP Summary by Category (ProForma Spend)						
	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate	FY 2025 - FY 2029 Total Estimate
Water Supply Resiliency & Climate Adaptation Projects						
Water Supply Augmentation Strategy	8,200,643	7,698,208	5,290,623	2,831,438	26,403,139	50,424,051
ASR Planning, ASR Mid County Existing Infrastructure, ASR Mid County New Wells, Santa Margarita Groundwater, Water Supply Augmentation, Recycled Water Feasibility Study, and Intertie 1: SVWD & SCWD						
Infrastructure Resiliency & Climate Adaptation Projects						
Raw Water Storage Projects	499,613	459,674	348,139	225,855	127,676	1,660,955
Newell Creek Dam Inlet/Outlet Replacement Project and Aerators at Loch Lomond						
Raw Water Diversion and Groundwater System Projects	536,000	227,808	1,524,571	1,221,753	5,684,396	9,194,529
Coast Pump Station Rehab, Tait Diversion Retrofit, Felton Diversion Pump Station Improvements, and Tait Well Rehab						
Raw Water Transmission	17,533,058	14,441,099	11,142,829	1,964,312	1,895,611	46,976,908
Newell Creek Pipeline Rehab/Replacement (Felton/GHWTP & Felton/Loch Lomond), Brackney Landslide Area Pipeline Risk Reduction, Felton Diversion Pipeline Emergency Repair, and North Coast Pipeline Repair/Replacement (Phase 4)						
Water Treatment	20,254,291	40,565,635	39,505,201	33,085,141	33,078,225	166,488,493
GHWTP Concrete Tanks Replacement, GHWTP Facilities Improvement Project, Facility & Infrastructure Improvements, River Bank Filtration Study, Beltz 12 Ammonia Removal, and Beltz Water Treatment Plant Upgrades						
Distribution System Storage, Water Main, & Metering Projects	3,472,079	4,456,790	946,357	956,131	989,596	10,820,952
University Tank No. 4 Rehab/Replacement, Engineering and Distribution Main Replacement Projects, and Distribution System Water Quality Improvements						
Other Risk Management & Risk Reduction Projects						
Site Safety & Security	624,824	249,600	-	-	-	874,424
Graham Hill WTP Entrance Improvements, Security Camera & Building Access Upgrades, GHWTP SCADA Radio System Replacement, GHWTP SCADA I/O Comm Replacement, CMMS Software Replacement (Water share)						
Staff Augmentation -Water Program Administration	2,506,789	2,495,974	2,489,715	2,472,251	1,553,943	11,518,672
Facility Upgrades for Emergencies & System Repair	556,910	30,000	30,000	-	-	616,910
Union/Locust Admin Building Back Up Power Generator and Branciforte Streambank Restoration						
Contingency - Water Program Management Reserve	3,820,568	4,227,549,394	-	-	-	11,369,962
TOTAL	58,004,774	78,174,182	61,277,434	42,756,881	69,732,586	309,945,858

Proposed FY 2025 Operating Budget: Fund 711, 713 & 715

BY CATEGORY OF EXPENSE

	FY 2020		FY 2021		FY 2022		FY 2023		FY 2024		FY 2025
	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Est. Actual	Proposed
Personnel	15,686,336	13,520,355	16,020,609	13,774,554	16,714,151	14,449,468	17,911,780	15,109,353	18,235,636	16,419,121	20,053,023
Services, Supplies, & Other	15,936,598	12,742,073	18,258,645	13,504,675	16,402,854	13,601,279	17,223,256	14,066,473	18,763,829	16,638,933	19,967,517
Debt Service	2,492,786	3,060,716	3,536,295	3,686,655	4,098,626	4,298,354	10,231,706	10,832,871	6,017,146	6,284,588	7,271,880
Capital Equipment	775,246	601,675	573,335	383,593	762,898	375,401	570,523	554,625	626,816	133,766	536,400
TOTAL Adjusted Budget	34,890,966	29,924,819	38,388,884	31,349,476	37,978,530	32,724,502	45,937,265	40,563,322	43,643,426	39,476,408	47,828,820

Figure 1
Historical Budget Comparison with FY 2025 Proposed Budget
(BY CATEGORY OF EXPENSE)

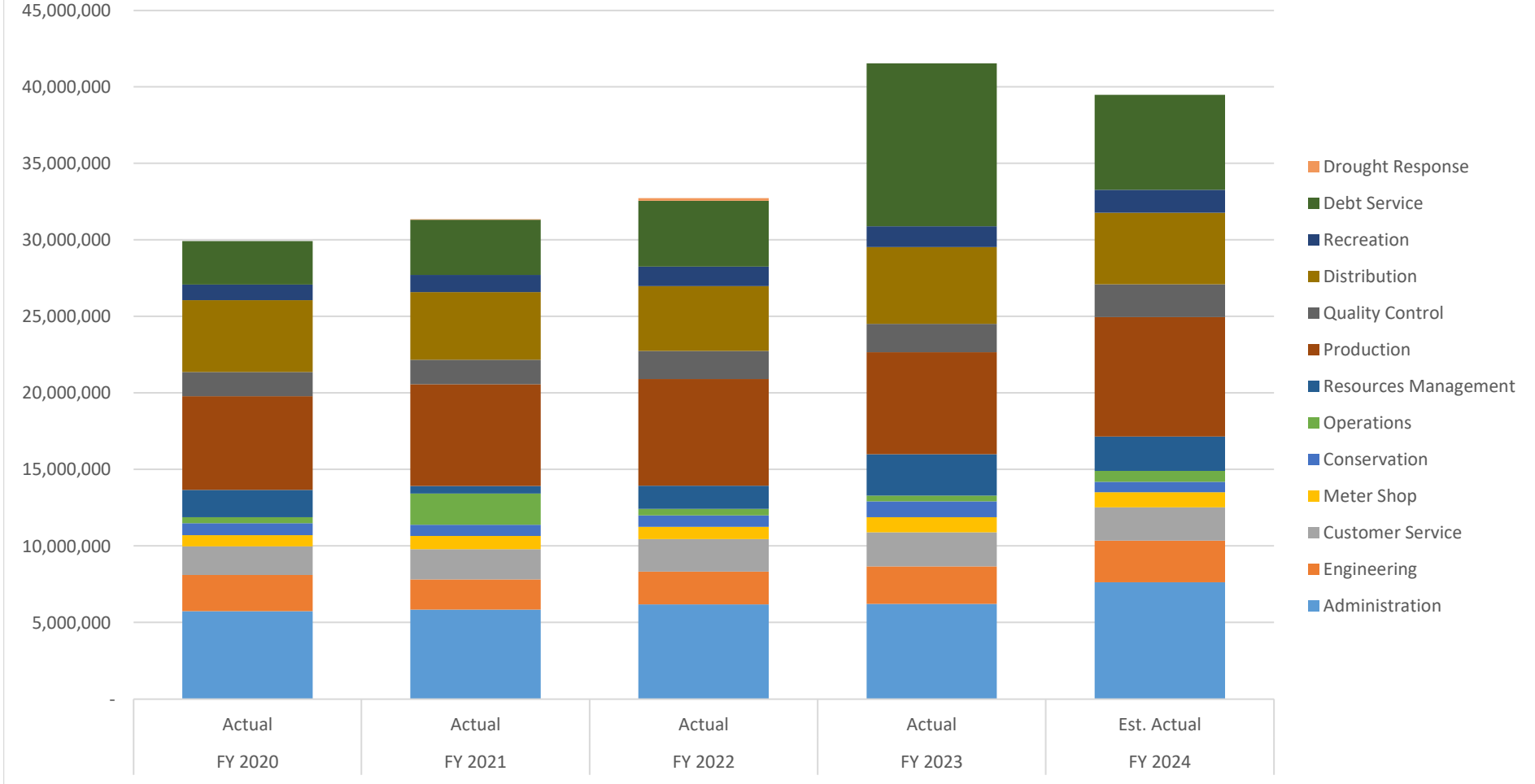


Proposed FY 2025 Operating Budget: Fund 711, 713 & 715

BY SECTION

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY2025	FY 2024 to FY 2025
	Actual	Actual	Actual	Actual	Est. Actual	Proposed	% Change
Administration	5,738,169	5,838,628	6,181,308	6,221,176	7,628,173	8,683,772	13.8%
Engineering	2,366,620	1,969,117	2,143,153	2,437,009	2,721,511	4,004,086	47.1%
Customer Service	1,875,267	1,985,247	2,119,794	2,237,645	2,173,191	2,721,229	25.2%
Meter Shop	719,815	861,595	803,338	990,578	986,018	1,354,505	37.4%
Conservation	788,015	726,902	749,419	1,036,022	681,083	1,161,850	70.6%
Operations	393,104	2,039,642	416,866	364,875	708,215	727,582	2.7%
Resources Management	1,780,480	500,959	1,515,018	2,711,128	2,258,366	2,832,022	25.4%
Production	6,122,369	6,641,345	6,978,056	6,659,390	7,800,193	9,325,113	19.5%
Quality Control	1,590,499	1,601,453	1,844,413	1,852,742	2,140,669	2,511,185	17.3%
Distribution	4,680,536	4,428,150	4,220,434	5,012,759	4,674,961	5,845,395	25.0%
Recreation	1,031,970	1,117,544	1,281,323	1,372,297	1,499,440	1,645,202	9.7%
Debt Service	2,837,975	3,604,550	4,298,354	10,640,589	6,204,588	7,016,880	13.1%
Drought Response	-	30,890	173,027	-	-	-	-
TOTAL	29,924,819	31,346,021	32,724,501	40,563,322	39,476,408	47,828,820	21.2%

Figure 2
Historical Budget Comparison
with FY 2025 Proposed Budget
(BY DEPARTMENT SECTION)



Budget Trends by Percent

	% of Change Comparing Actuals Expenditures					
	FY 2020 to FY 2021	FY 2021 to FY 2022	FY 2022 to FY 2023	FY 2023 to FY 2024	Average	FY 2020 to 2024
Personnel	1.8%	1.9%	4.9%	13.6%	5.6%	21.4%
Services, Supplies, & Other	5.6%	6.0%	0.7%	22.3%	8.7%	30.6%
Debt Service	17.0%	20.5%	16.6%	46.2%	25.1%	105.3%
Capital Equipment	(56.9%)	(36.2%)	(2.1%)	(64.4%)	(39.9%)	(77.8%)
TOTAL (w/o transfers)	4.5%	4.8%	4.4%	20.6%	8.6%	31.9%

	% of Change Comparing Budgeted Amounts						
	FY 2020 to FY 2021	FY 2021 to FY 2022	FY 2022 to FY 2023	FY 2023 to FY 2024	FY 2023 to FY 2025	Average	FY 2020 to 2025
Personnel	2.1%	2.1%	4.3%	9.1%	10.0%	5.5%	27.8%
Services, Supplies, & Other	14.6%	14.6%	(10.2%)	14.4%	6.4%	8.0%	25.3%
Debt Service	41.9%	41.9%	15.9%	46.8%	20.9%	33.5%	191.7%
Capital Equipment	(26.0%)	(26.0%)	33.1%	(17.8%)	(14.4%)	(10.3%)	(30.8%)
TOTAL (w/o transfers)	10.0%	10.0%	(1.1%)	14.9%	9.6%	8.7%	37.1%

	Budget vs Actuals				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Personnel	(13.8%)	(13.8%)	(14.0%)	(13.5%)	(10.0%)
Services, Supplies, & Other	(20.0%)	(20.0%)	(26.0%)	(17.1%)	(11.3%)
Debt Service	22.8%	22.8%	4.3%	4.9%	4.4%
Capital Equipment	(22.4%)	(22.4%)	(33.1%)	(50.8%)	(78.7%)
TOTAL (w/o transfers)	(14.2%)	(14.2%)	(18.3%)	(13.8%)	(9.5%)

	Percent of Total Budget					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Administration	19.2%	19.2%	18.6%	18.9%	19.3%	18.2%
Engineering	7.9%	7.9%	6.3%	6.5%	6.9%	8.4%
Customer Service	6.3%	6.3%	6.3%	6.5%	5.5%	5.7%
Meter Shop	2.4%	2.4%	2.7%	2.5%	2.5%	2.8%
Conservation	2.6%	2.6%	2.3%	2.3%	1.7%	2.4%
Operations	1.3%	1.3%	6.5%	1.3%	1.8%	1.5%
Resources Management	5.9%	5.9%	1.6%	4.6%	5.7%	5.9%
Production	20.5%	20.5%	21.2%	21.3%	19.8%	19.5%
Quality Control	5.3%	5.3%	5.1%	5.6%	5.4%	5.3%
Distribution	15.6%	15.6%	14.1%	12.9%	11.8%	12.2%
Recreation	3.4%	3.4%	3.6%	3.9%	3.8%	3.4%
Debt Service	9.5%	9.5%	11.5%	13.1%	15.7%	14.7%
Drought Response	0.0%	0.0%	0.1%	0.5%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Attachment 4: FY 2025-2029 Water Department Financial Pro Forma

FY 2025-29 Financial Pro Forma

Fiscal Year	2025	2026	2027	2028	2029
Revenues					
Fixed Fee Revenue	5,200,863	5,562,041	5,947,543	6,408,299	7,072,124
Volumetric Revenue	47,794,814	50,685,858	55,077,268	59,344,106	65,491,456
Elevation Surcharges	352,788	352,788	352,788	352,788	352,788
Rate Stabilization Revenue	3,331,671	3,301,080	3,355,063	3,355,063	3,355,063
Total Rate Revenue	56,680,136	59,901,767	64,732,663	69,460,257	76,271,432
Non-Rate Revenue					
Other Income	844,743	4,000,000	4,000,000	4,000,000	4,000,000
Investment Income	1,240,000	1,240,000	1,240,000	1,240,000	1,240,000
Total Non-Rate Revenue	2,084,743	5,240,000	5,240,000	5,240,000	5,240,000
Total Revenues	58,764,879	65,141,767	69,972,663	74,700,257	81,511,432
Operating Expenses					
Personnel	20,053,023	19,718,617	21,098,920	22,575,844	24,156,154
Services, Supplies & Other	19,967,517	20,965,892	22,014,187	23,114,896	24,270,641
Capital Outlay	536,400	563,220	591,381	620,950	651,997
Other Operating Expenses	-	-	-	-	-
Total Operating Expenses	40,556,939	41,247,729	43,704,488	46,311,691	49,078,792
Net Operating Revenues	18,207,940	23,894,038	26,268,176	28,388,566	32,432,640
Capital Expenditures					
Grant Funded	5,035,000	10,085,000	1,060,000	-	-
SRF Funded	9,965,232	31,216,782	30,853,669	31,712,161	32,609,255
WIFIA Funded	27,630,818	25,204,482	21,554,801	2,252,280	2,297,931
Pay-Go Funded	3,443,951	8,222,207	7,401,326	5,009,659	13,755,327
Debt Funded (Tax-Exempt Bonds)	11,929,776	3,445,711	407,640	3,782,780	21,070,076
Debt Service	7,326,569	10,450,874	10,452,287	18,910,855	21,577,773
Net Income	7,437,420	5,220,957	8,414,563	4,468,052	(2,900,460)
Ending Cash Balances by Fund					
Fund 717 (Emergency Reserve)	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Fund 713 (Rate Stabilization)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Fund 716 (90 Day Operating Reserve)	10,000,341	10,170,673	10,776,449	11,419,321	12,101,620
Fund 711 (Water Operations)	26,015,486	31,066,111	38,874,897	42,700,078	39,117,318
Coverage and Targets					
Debt Service Coverage (W/Out Reserves)	2.49	2.29	2.51	1.50	1.50
Debt Service Coverage Target	1.50	1.50	1.50	1.50	1.50
Debt Service Coverage (W/Reserves)	9.18	7.48	8.51	5.05	4.48
Days' Cash (Includes only Funds 711 & 716)	324	365	415	427	381
Days' Cash Target	180	180	180	180	180



WATER COMMISSION INFORMATION REPORT

DATE: 03/25/2024

AGENDA OF: 04/01/2024

TO: Water Commission

FROM: David Baum, Chief Financial Officer
Malissa Kaping, Principal Management Analyst

SUBJECT: Fiscal Year 2024 2nd Quarter Unaudited Financial Report

RECOMMENDATION: That the Water Commission accept the Fiscal Year 2024 2nd Quarter Unaudited Financial Report.

BACKGROUND: On June 6, 2016, the Water Commission approved the Water Department's Long-Range Financial Plan (LRFP) which created a framework to ensure financial stability and maintain the credit rating needed to debt finance major capital investments planned for the utility. The Water Commission reviewed an updated LRFP during the summer of 2021 and recommended to the City Council that it approve the plan at their meeting on August 23, 2021. The updated LRFP maintains the 2016 recommended financial targets for debt service coverage ratio (1.5x), a combined 180-days cash on hand, \$3 million in an Emergency Reserve, and a \$10 million Rate Stabilization Reserve.

DISCUSSION: The attached financial report presents the Water Department's unaudited fiscal outlook through the second quarter of Fiscal Year (FY) 2024 and is a snapshot of the transactions posted during the time period of July 1, 2023, through December 31, 2023. Page 1 of the attached Financial Report is focused on the Operating budget and Page 2 reflects the Capital budget. Noteworthy items are discussed on the following pages.

Operating Revenues

Water sales are recovering from the impacts of the COVID-19 pandemic and recent drought. Water sales are 7% above budgeted amounts for FY 2024. Residential consumption is up 9%, and overall consumption is up 5%. The water rate increased 16.4% on July 1, 2023.

Operating Expenses

Operating expenses are trending 18% below the Adopted Budget. Salaries and wages are down 10% and employee benefit costs are down 19%, primarily due to the 15-17 vacant positions during the first six months of FY 2024. The vacancy rate is approximately 12-14% of budgeted positions; the budgeted cost for personnel assumes a 10% vacancy rate. Approximately \$742,000 in personnel expenses are charged to capital projects; the budgeted amount is \$499,000, which drove down the operating expenditures. Staff are encouraged to track hours spent on project-related work in order to accurately reflect the true cost of completing capital projects in accordance with generally accepted accounting principles.

Significant operating expenses which trended lower than the budget during this quarter are as follows:

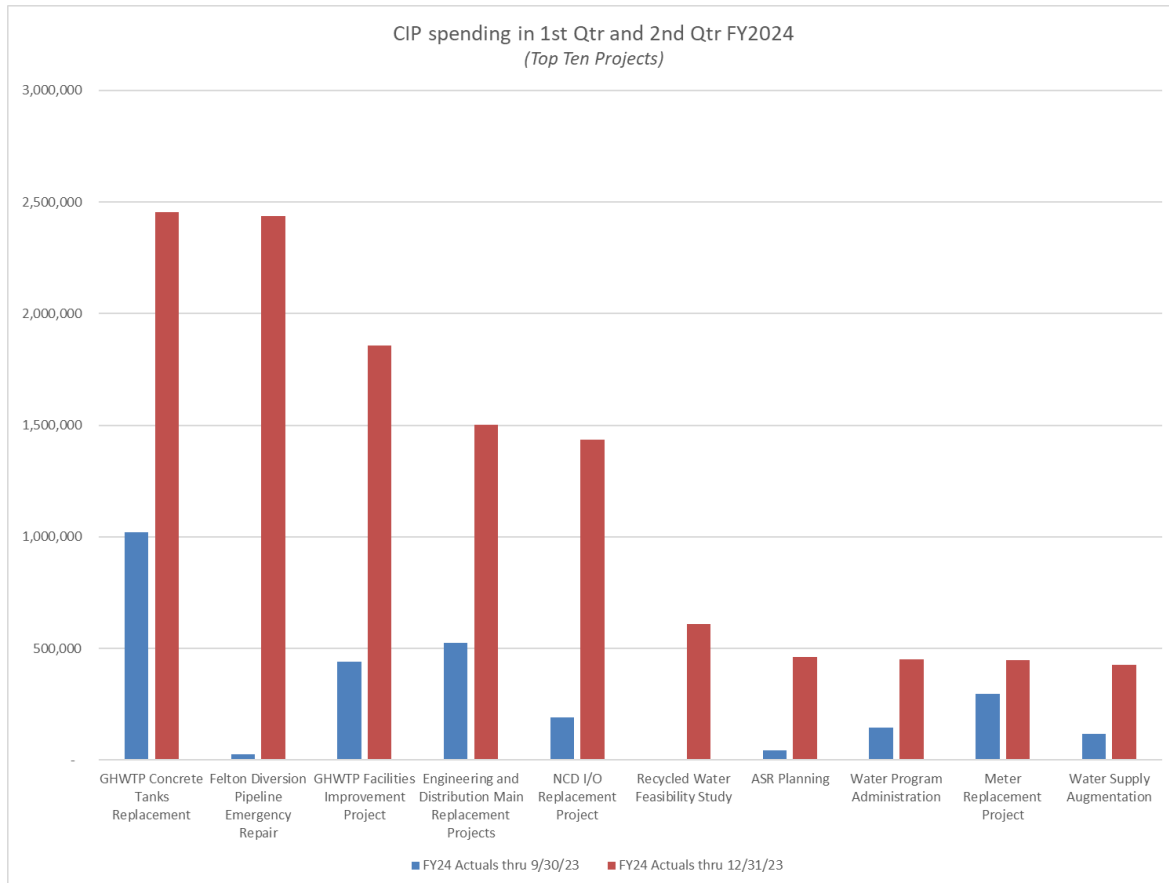
- Maintenance for water systems was under budget by \$379,000. Funding in this account is primarily spent on water quality monitoring and regulatory compliance, including fisheries biology support, juvenile salmonid and stream habitat support, and the Anadromous Salmonid Habitat Conservation Plan implementation.
- Other professional services were a total of \$384,000 below budget during this quarter. The largest expense in this category was the Badger meter-reading software licensing cost, which is paid monthly and is the largest encumbrance for the year at \$196,800, although only \$49,330 was billed in the first six months. The second largest expense in this category paid last quarter was for a classification study for City of Santa Cruz Water Department (SCWD)'s customer service, customer assistance, and meter shop staff which totaled \$45,000. The third largest expense in this category was a \$22,540 charge paid to Abernathy Schwartz for the Lead and Copper Rule predictive modeling. Other expenses in this category pertain to outside laboratory water monitoring, water resource management, landscape management, communications, and graphics.
- Electricity costs for the first six months were \$655,000, which is trending \$107,000 under the Adopted Budget.
- Chemical costs for the first six months were \$342,000, which is trending \$225,000 under the Adopted Budget. Chemical prices are now trending downward after increasing significantly due to COVID-related shortages.

A significant expense trending higher than predicted is Merchant Bank Fees, which are running \$96,000 over budget. At the current pace, these fees will exceed \$500,000 this year. These fees arise when credit cards are used by ratepayers. The fee is currently absorbed by the Water Department; however, discussion is underway to reassign the bank fee associated with credit card use to the customer.

These highlighted operating expenses are paid from the Services, Supplies and Other line items.

Capital Investment Program (CIP) Highlights

Through December 31, 2023, nearly \$14.2 million was spent on CIP work. This is an increase of \$10.8 million over what was spent in the first quarter of FY 2024. The following table compares the spending of the top ten projects during the two different periods.



The largest change in spending was seen in the Felton Diversion Pipeline Emergency Repair project which started and completed construction during the 2nd quarter of FY 2024. The cost of the Engineering Water Main Replacement Project also increased significantly after completion of replacement of two water main segments, one on Soquel Avenue and the other on Soquel Drive. The change in spending on the Graham Hill Water Treatment Plant (GHWTP) Concrete Tanks Project, GHWTP Facilities Improvement Project (FIP), and Newell Creek Dam Inlet/Outlet Project is consistent with previous quarters and is due to the overall cost of these projects.

The \$14.2 million spent on capital work during the first six months of FY 2024 is well below the current FY 2024 budget appropriations of \$82.3 million. The unspent budget appropriations will be carried forward into FY 2025 and will reduce our FY 2025 budget request. Our budget practices since 2018 have been to include project contingencies as well as funding a management reserve to cover worst-case scenario unknowns. This very conservative budget approach has led to inflated budget appropriations in previous years. Now that we have this experience, staff are analyzing how these large contingencies can be reduced while still managing risk appropriately.

FISCAL IMPACT: None.

PROPOSED MOTION: Motion to accept the FY 2024 2nd Quarter Financial Report.

ATTACHMENTS:

1. Santa Cruz Water Department Financial Report

SANTA CRUZ WATER DEPARTMENT FINANCIAL REPORT

Fiscal Year 2023-24 through December 31, 2023

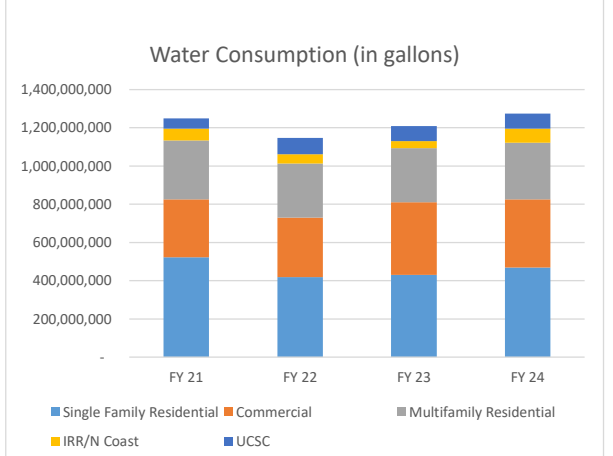
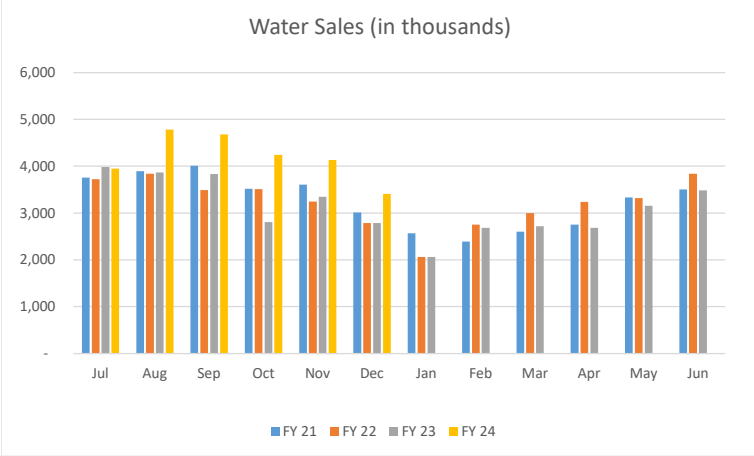
(Unaudited)



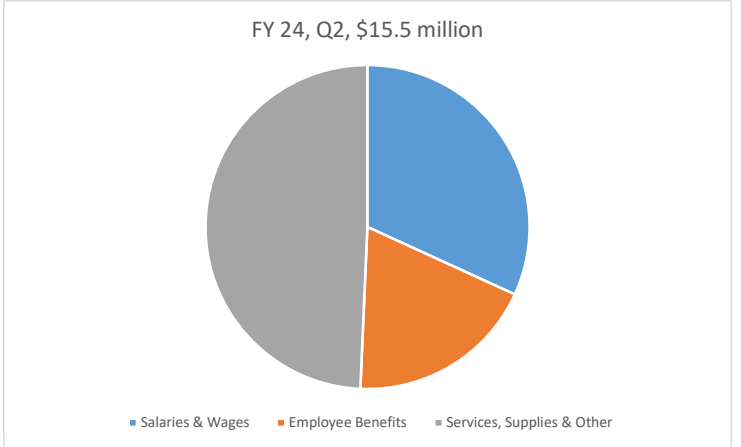
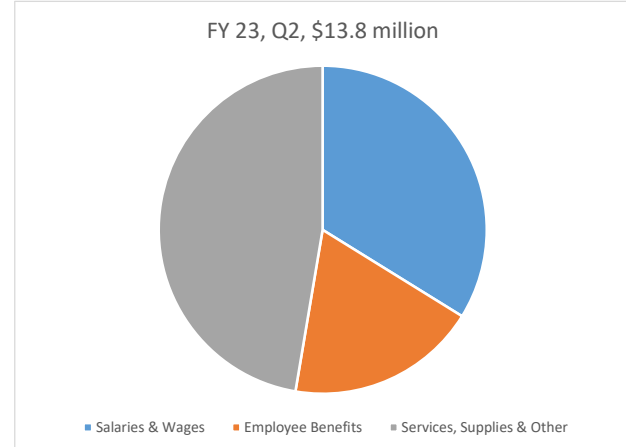
Financial Summary

	FY 2024 Adjusted Budget	YTD Budget	Actual	Actual vs. YTD Budget	
				Variance \$ +/-	Variance % +/-
Operating Revenues					
Water Sales	47,691,935	23,845,968	25,424,981	1,579,014	7%
Other Charges for Services	1,570,932	785,466	1,462,462	676,996	86%
Other Revenues	498,777	249,389	190,272	(59,117)	(24%)
Grants	5,043,995	2,521,998	270,815	(2,251,183)	(89%)
Investment Earnings	180,715	90,358	292,000	201,643	223%
Total Operating Revenues	54,986,354	27,493,177	27,640,530	147,353	1%
Operating Expenses					
Salaries & Wages	10,933,325	5,466,662	4,946,146	(520,516)	(10%)
Employee Benefits	7,263,373	3,631,687	2,929,649	(702,037)	(19%)
Services, Supplies & Other	19,377,343	9,688,672	7,576,085	(2,112,587)	(22%)
Capital Outlay	576,816	288,408	82,441	(205,967)	(71%)
Debt Service - Principal & Interest	5,113,838	2,556,919	2,397,540	(159,379)	(6%)
Total Operating Expenses	43,264,694	21,632,347	17,931,861	(3,700,486)	(17%)
Net Operating Revenue (Loss)	11,721,660	5,860,830	9,708,669	3,847,839	66%
Debt Service Coverage (Target >= 1.50x)	3.29x	3.29x	5.05x		

Revenues



Expenses



Cash

Fund Balances	YTD Balance	Year End Target Balance
711 - Enterprise Operations	16,138,983	9,407,060
713 - Rate Stabilization	6,207,431	10,000,000
715 - System Development Charges	7,641,794	N/A
716 - 90 Day Operating Reserve	8,951,804	9,407,060
717 - Emergency Reserve	3,063,008	3,000,000
718 - Mount Hermon June Beetle Endowment	145,864	144,000
719 - Equipment Replacement	597,520	700,000
Total-all funds	42,746,404	
Days' Cash (Includes only Funds 711 & 716)	240	180

Note: State Revolving Fund (SRF) Loan funds receivable totaling \$12.1 million are due to SCWD as of 11/28/22. Average number of days waiting for the \$78.9 million reimbursed-to-date is 117. A \$50 million line of credit was obtained in June 2021 to ensure adequate cash to pay vendors.

CIP Summary: Fiscal Year 2024, 2nd Quarter	Prior Year Actuals	FY24 Actuals thru 12/31/23	Total Project Cost Estimate ⁽¹⁾ (escalated dollars)	Project Schedule
Project Titles				
WATER SUPPLY RESILIENCY & CLIMATE ADAPTATION PROJECTS				
<i>Water Supply Augmentation Strategy</i>				
Beltz Wellfield Aquifer Storage and Recovery				
ASR Planning	3,468,584	461,127	5,997,248	2019-2024
ASR Mid County Existing Infrastructure	727,865	291,179	11,239,422	2020-2031
ASR Mid County New Wells	-	-	700,610	2021-2027
Santa Margarita Aquifer Storage and Recovery and In Lieu Water Transfers and Exchanges				
ASR Santa Margarita Groundwater	23,382	6,026	343,243	2020-2027
ASR New Pipelines	-	-	-	2022-2027
In Lieu Transfers and Exchanges	-	-	-	
Studies, Recycled Water, Climate Change, Aquifer Storage and Recovery				
Water Supply Augmentation	3,019,306	427,953	176,132,721	2019-2033
Recycled Water Feasibility Study	915,675	609,895	2,564,411	2018-2023
<i>Subtotal Water Supply Augmentation Strategy</i>	8,154,812	1,796,180	196,977,655	
<i>Subtotal Water Supply Resiliency and Climate Adaptation Projects</i>	8,154,812	1,796,180	196,977,655	
INFRASTRUCTURE RESILIENCY AND CLIMATE ADAPTATION				
<i>Raw Water Storage Projects</i>				
NCD I/O Replacement Project	90,947,902	1,433,682	101,190,939	2018-2024
Aerators at Loch Lomond	646,897	53,522	712,897	2018-2024
<i>Subtotal Raw Water Storage Projects</i>	91,594,799	1,487,204	101,903,836	
<i>Raw Water Diversion and Groundwater System Projects</i>				
Laguna Creek Diversion Retrofit	2,970,354	8,724	2,953,021	2018-2023
Tait Diversion Retrofit	575,373	4,730	10,294,485	2018-2030
Coast Pump Station Rehab/Replacement	-	-	11,894,222	2029-2033
Felton Diversion Pump Station Improvements	353,539	-	4,260,054	2020-2029
Beltz 12 Ammonia Removal	757,370	406,553	2,528,353	2021-2025
Beltz WTP Upgrades	304,628	151,817	18,281,125	2022-2028
<i>Subtotal Raw Water Diversion and Groundwater System Projects</i>	4,961,264	571,825	50,211,260	
<i>Raw Water Transmission</i>				
Newell Creek Pipeline Felton/GHWTP	3,386,004	219,652	41,982,557	2019-2027
Newell Creek Pipeline Felton/Loch Lomond	-	-	46,549,340	2027-2033
Brackney Landslide Area Pipeline Risk Reduction ⁽²⁾	2,099,659	296,681	14,439,908	2020-2026
North Coast Pipeline Repair/Replacement - Ph 4	-	-	89,691,553	2026-2032
Felton Diversion Pipeline Emergency Repair ⁽²⁾	181,357	2,435,774	3,356,736	2023
<i>Subtotal Raw Water Transmission</i>	5,667,020	2,952,107	196,020,094	
<i>Surface Water Treatment</i>				
GHWTP Concrete Tanks Replacement	26,962,064	2,453,690	45,714,566	2018-2026
GHWTP Facilities Improvement Project	16,516,166	1,857,176	160,520,528	2018-2030
River Bank Filtration Study	1,003,775	-	7,225,332	2018-2028
GHWTP SCADA Radio System Replacement	2,520	-	247,344	On-going
GHWTP SCADA IO Hardware & Wiring Upgrade	-	-	244,688	2022-TBD
<i>Subtotal Surface Water Treatment</i>	44,484,525	4,310,866	213,952,458	
<i>Distribution System Storage, Water Main and Pressure Regulation, and Metering Projects</i>				
University Tank No. 4 Rehab/Replacement	787,109	163,838	6,714,841	2018-2027
Meter Replacement Project	12,557,629	445,922	14,016,438	2018-2023
Engineering and Distribution Main Replacement Projects ⁽³⁾	13,312,479	1,503,132	28,923,622	On-going
Distribution System Water Quality Improvements	41,760	-	119,139	2021-TBD
Facility & Infrastructure Improvements	10,359	106,649	8,617,604	On-going
Intertie 1: Santa Cruz - Scotts Valley ⁽²⁾	788,086	200,337	10,260,483	2022-2026
<i>Subtotal Distribution Storage, Wmain Pressure Reg, and Metering</i>	27,497,421	2,419,877	68,652,127	
<i>Subtotal Infrastructure Resiliency and Climate Adaptation</i>	174,205,029	11,741,878	630,739,775	
OTHER RISK MANAGEMENT AND RISK REDUCTION PROJECTS				
<i>Site Safety and Security</i>				
Security Camera & Building Access Upgrades	325,479	41,500	741,497	On-going
GHWTP Gate Entrance Upgrades	899,901	663	1,111,803	2020-2023
CMMS Software Replacement - Water Share	316,956	132,005	569,505	2022-2023
<i>Subtotal Site Safety and Security</i>	1,542,335	174,169	2,422,805	
<i>Staff Augmentation</i>				
Water Program Administration ⁽⁴⁾	2	450,927	13,574,444	On-going
<i>Subtotal Staff Augmentation</i>	2	450,927	13,574,444	
<i>Contingency</i>				
Management Reserve ⁽⁵⁾	-	-	11,369,962	On-going
<i>Subtotal Contingency</i>	-	-	11,369,962	
<i>Storage for Emergency Facility and System Repair Tools and Equipment</i>				
Union/Locust Admin Building Back Up Power Generator	12,549	2,906	100,000	TBD
<i>Subtotal Storage for Emergency and System Repair</i>	12,549	2,906	100,000	
<i>Other Projects</i>				
Branciforte Streambank Restoration	86,625	33,081	815,583	TBD
<i>Subtotal Other Projects</i>	86,625	33,081	815,583	
<i>Subtotal Other Risk Management and Risk Reduction Projects</i>	1,641,511	661,083	28,282,794	
GRAND TOTAL	184,001,352	14,199,141	856,000,224	

⁽¹⁾ Project Cost Estimates are FY24 adopted budget plus FY24 adjustments/carry-forwards plus FY25-38 projections from Oct 2023.

⁽²⁾ Expenses are not adjusted for grant funding.

⁽³⁾ Prior year actuals for Main Replacements start in FY19.

⁽⁴⁾ Staff augmentation budget appropriations and actual expenses are transferred to specific projects during fiscal year-end process.

⁽⁵⁾ Management Reserve budget appropriations are transferred to specific projects upon Change Management approval.

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WATER COMMISSION
INFORMATION REPORT

DATE: 05/24/2024

AGENDA OF: 06/03/2024

TO: Water Commission

FROM: Heidi Luckenbach, Water Director
Dr. Tiffany Wise-West, Sustainability and Resiliency Officer

SUBJECT: Health in All Policies, Climate Action, and Resilience

RECOMMENDATION: That the Water Commission receive information and provide feedback on Health in All Policies, Climate Action, and Resilience.

BACKGROUND AND DISCUSSION: Recognizing that local governments play a role in community well-being through policy and decision making by prioritizing the three pillars of equity, public health, and sustainability, the City Council adopted a Health in All Policies (HiAP) ordinance and City Council policy in December of 2019 (see links listed in Attachments 1 and 2 below). In January of 2020, the City Council adopted a Year 1 Implementation Work Plan and upon completion of that Work Plan, adopted a multi-year workplan in November of 2021 that extends through 2024. City of Santa Cruz (City) staff reported on HiAP Implementation Work Plan progress and 2024 activities at the January 23, 2024 City Council meeting (see link listed in Attachment 3 below).

Several additional planning efforts support the City's commitment to, and define actions for, meeting climate action objectives and goals.

- The community-wide Climate Action Plan (CAP) 2030 (see link listed in Attachment 4 below) was adopted in September of 2022 after nearly 2 years of community engagement, technical analysis, and plan development. The CAP 2030 includes the following emission targets:
 - A California Environmental Quality Act (CEQA) qualified emissions target that is consistent with the State of California (State) target for 2030 and is deemed reasonable and achievable of a 40% reduction in emissions from a 1990 level by 2030; and

- Because recent scientific consensus recognizes the need to accelerate beyond the State target, the CAP 2030 sets an aspirational voluntary target of carbon neutral (zero emissions) by 2035.
- City staff reported on the CAP 2030 Implementation Work Plan progress and 2024 activities at the January 23, 2024, City Council meeting (see link listed in Attachment 3 below).
- The Climate Adaptation Plan adopted in 2018 (see link listed in Attachment 5 below) contains 6 goals and 44 actions to improve the resiliency of the City and its residents to climate change and its impacts. The Climate Adaptation Plan is currently in the process of being updated and a report on progress made to implement it will be shared with the community during the planning process. The Climate Adaptation Plan Update is being integrated with the Local Hazard Mitigation Plan Update and together the two will be complete by December of 2024.

Notably, the cost of inaction on climate change in the community is estimated to cost the City at least \$25 million annually in the form of adverse impacts to health, infrastructure, and the economy.

The HiAP Initiative (see link listed in Attachment 6 below) and Climate Action and Adaptation Plans acknowledge that training and reporting are essential activities to ensure integration of these priorities into City operations. Committees and commissions that advise City Council are important bodies that require understanding of the City's efforts in equity, sustainability, and resiliency to make well-informed and holistic recommendations and decisions that reflect these priorities. From the recent Santa Cruz Like Me 2.0 demographics survey, committee and commission members indicated their interest and need for improved understanding of policies and processes in place to embed these priorities as considerations into committee and commission work as well as a desire to better understand overall work to achieve equity and climate goals.

At the direction of the City Manager, Dr. Tiffany Wise-West, the City's Sustainability and Resiliency Officer, is presenting this work to key commissions and committees over the summer of 2024 as the City begins a change management initiative to better and more deeply integrate equity, sustainability, and resiliency throughout the organization. In addition to this report, Dr. Tiffany Wise-West will provide a presentation at the June 3, 2024 Water Commission meeting.

FISCAL IMPACT: None.

PROPOSED MOTION: No motion required; this item is information only.

ATTACHMENTS:

1. HiAP Ordinance:
<https://www.cityofsantacruz.com/home/showpublisheddocument/78336/637110752152170000>
2. HiAP City Council Policy:
<https://www.cityofsantacruz.com/home/showpublisheddocument/78480/637122600805230000>
3. January 23, 2024 City Council Meeting, Agenda Including an Update on the HiAP Work Plan and a Report on CAP Implementation:
<https://ecm.cityofsantacruz.com/OnBaseAgendaOnline/Meetings/ViewMeeting?id=2230&doctype=1>
4. CAP 2030: <http://cityofsantacruz.com/climateactionplan>
5. Climate Adaptation Plan:
<https://www.cityofsantacruz.com/home/showpublisheddocument/95350/638272522724800000>
6. HiAP Initiative: <https://www.cityofsantacruz.com/government/city-departments/city-manager/health-in-all-policies>

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WATER COMMISSION INFORMATION REPORT

DATE: 05/24/2024

AGENDA OF: 06/03/2024

TO: Water Commission

FROM: Sarah Easley Perez, Principal Planner

SUBJECT: Update on Climate Resilient Santa Cruz: Graham Hill Water Treatment Plant Facility Improvements Project

RECOMMENDATION: That the Water Commission receive an update on the Climate Resilient Santa Cruz: Graham Hill Water Treatment Plant Facility Improvements Project upcoming Planning Commission, Water Commission, and City Council considerations of the project.

BACKGROUND: The City of Santa Cruz Water Department (Water Department or Department) is currently engaged in the design and environmental review of a project to undertake a comprehensive upgrade of its only surface water treatment plant, the Graham Hill Water Treatment Plant (GHWTP). GHWTP was originally constructed in 1960 and standards and regulations enacted over the intervening years necessitate this project. Climate Resilient Santa Cruz: GHWTP Facility Improvements Project (Project) would include the following major components:

- Improved treatment reliability: The Project is designed to reliably produce a maximum of 18.2 million gallons of drinking water per day under a broad range of source water conditions.
- New and upgraded water treatment and related processes to efficiently meet current and future water quality regulations: The Project is designed to include pretreatment, treatment, solids handling, and chemical feed systems.
- New and upgraded buildings to meet modern seismic code requirements: The Project design includes new buildings for maintenance, ozone, solids dewatering, and chemical storage and feed as well as upgrades to the existing operations and filter building.
- Other infrastructure and site improvements: The project design also includes sewer and stormwater improvements, vehicular access improvements, security and fencing, communications improvements (Supervisory Control and Data Acquisition), solar panels, electrical, lighting, heating, cooling, ventilation, and landscaping.

The Project is being implemented with the best value Progressive Design-Build project delivery model. Progressive Design-Build provides for an integrated design and construction team to be closely involved from the early design stages of the Project, anticipating and mitigating the complex issues related to reconstructing the treatment plant while it remains in operation.

This update is being made to inform the Water Commission of upcoming planned considerations by the Planning Commission, an additional Water Commission meeting, and City Council on various aspects of the Project. The City of Santa Cruz (City)'s upcoming Project approvals will include certification of the Project's Environmental Impact Report (EIR), approval of the Project's Design Permit and Special Use Permit applications, and approval of the Project.

Previous City Council and Water Commission actions related to the Project are listed below.

- December 3, 2018: Water Commission Workshop on Water Treatment
- September 24, 2019: City Council awarded a Master Services Agreement for California Environmental Quality Act Compliance and Environmental Permitting Services
- April 14, 2020: City Council approved Phase I Environmental Services Contract Amendment No. 1 with DUDEK on the Project
- June 1, 2020: Water Commission Presentation on the Project to summarize key findings in the Project report, Project delivery methods, environmental approach, neighborhood outreach, and project financing
- June 23, 2020: City Council approved recommendation on best value progressive design-build delivery approach for the Project and authorization to submit a letter of interest for Water Infrastructure Finance and Innovation Act (WIFIA) funding
- October 13, 2020: City Council authorized outside legal counsel services with Hunt Ortmann for the Project
- December 8, 2020: City Council authorized the application for Drinking Water State Revolving fund (DWSRF) funding
- April 13, 2021: City Council approved Phase II Environmental Services Contract Amendment No. 2 with DUDEK on the Project
- May 2021: Water Commission received an informational briefing on the Project
- August 2021: Water Commission received an informational update for the selection of Design-Builder for Phase 1 – Design
- August 2021: City Council awarded the progressive design build contract for Phase 1 – Design to AECOM/W. M. Lyles
- August 2022: City Council ratified the WIFIA application fee
- December 2022: Water Commission received an informational briefing on the Project
- June 2023: City Council identified the process and approvals for the Project (further described below)
- October 2023: Water Commission received updates on the Project

At their June 13, 2023, City Council identified the specific process and approvals for this Project to clarify the actions to be undertaken by the two commissions and City Council. The following motion was carried in that meeting:

- Notify the Water and Planning Commissions that the Graham Hill Water Treatment Plant Facility Improvements Project (Project) will be brought to the City Council for final consideration and action on the EIR, discretionary permits/entitlements, and final project approval per Santa Cruz Municipal Code 24.04.175.2; and
- Direct staff to coordinate with the Water and Planning Commissions to obtain project recommendations from those commissions on the Project EIR (Water Commission) and Project entitlements (Planning Commission) prior to City Council’s final action on the Project.

DISCUSSION: The upcoming consideration of the Project by Planning Commission, Water Commission and City Council in summer of 2024 is further described below.

Planning Commission: The Planning Commission is scheduled to consider the Project on June 20, 2024, in order to make recommendations to City Council about the Project entitlements including a Design Permit and Special Use Permit.

Water Commission: The Water Commission is expected to consider the Project Final EIR, which is near completion, in August of 2024 in order to provide a recommendation to City Council on EIR certification. The [Draft EIR](#) for the Project was released for a 60-day public review that ran from December 7, 2023 through February 5, 2024. The Final EIR will be posted on the City’s website in advance of the August Water Commission meeting. Materials including a staff report and related documents, as well as a comprehensive presentation on the EIR will be provided at that meeting to support the Water Commission’s recommendation.

City Council: Once recommendations are provided from the Planning Commission on the Project entitlements and from Water Commission on the Final EIR, City Council will consider certification of the Final EIR, approval of the Project entitlements, and final Project approval. City Council consideration on these items is anticipated in September of 2024.

Subsequent actions by City Council will also be required for approval of the Project’s negotiated construction contract and guaranteed maximum price as Phase 2 of the Project’s Progressive Design-Build project delivery model and for execution of the Project DWSRF financing agreement. These actions are anticipated in late fall of 2024 or early winter of 2025.

FISCAL IMPACT: None.

PROPOSED MOTION: This item is informational only; no motion is required.

ATTACHMENTS:

1. June 13, 2023 City Council Staff Report, GHWTP Facility Improvements Project – Update Report / City Council Direction (WT/PL)
2. June 13, 2023 City Council Action Agenda (Item #21)



City Council AGENDA REPORT

DATE: 05/31/2023

AGENDA OF: 06/13/2023

DEPARTMENT: Water/Planning and Community Development

SUBJECT: Graham Hill Water Treatment Plant Facility Improvements Project –
Update Report / City Council Direction (WT/PL)

RECOMMENDATION: Motion to:

- 1) Notify the Water and Planning Commissions that the Graham Hill Water Treatment Plant Facility Improvements Project (Project) will be brought to the City Council for final consideration and action on the Environmental Impact Report (EIR), discretionary permits/entitlements, and final project approval per Santa Cruz Municipal Code 24.04.175.2; and
 - 2) Direct staff to coordinate with the Water and Planning Commissions to obtain project recommendations from those commissions on the Project EIR (Water Commission) and Project entitlements (Planning Commission) prior to Council’s final action on the Project.
-

BACKGROUND: As the City Council is aware, the Water Department (Department) is currently engaged in the design and environmental review of the Graham Hill Water Treatment Plant Facility Improvements Project (Project). The Graham Hill Water Treatment Plant (GHWTP) was originally constructed in 1960 and standards and regulations enacted over the intervening sixty-three years necessitate the Project. The preliminary budget for the Project, including its design, environmental review, permitting, and construction, is approximately \$154,000,000. The major components of the Project include the following:

- Improved treatment reliability;
- New and upgraded water treatment and related processes;
- New and upgraded buildings; and
- Infrastructure and site improvements.

The GHWTP parcel is within City limits; however, the parcel is non-contiguous to the City and hence constitutes an “island annexation” surrounded by parcels of residential property in the unincorporated County, most of which are within the City’s water service area and whose residents are customers of the City.

An EIR for the Project is currently being prepared in accordance with the California Environmental Quality Act (CEQA). Pursuant to California Government Code Section 53091(e), city and county zoning ordinances do not apply to “the location or construction of facilities for the production, generation, storage, treatment, or transmission of water[.]” This broad language

clearly applies to facilities such as tanks, pipelines, and water treatment equipment. However, related facilities which serve functions other than those listed above, such as the Project's proposed administrative and operations buildings remain subject to the City's zoning requirements. Accordingly, the Project, being located in the City's Public Facilities zoning district, will require a Design Permit and a Special Use Permit for the administrative and operations buildings while the remainder of the Project is exempt from these permitting requirements.

This means that the Project's approvals will require, first of all, certification of the Project's Final EIR, secondly, approval of the Project's Design Permit and Special Use Permit applications, and thirdly, approval of the remainder of the Project.

DISCUSSION: Per its bylaws, the City's Water Commission is charged with acting in an advisory capacity to the City Council in all matters pertaining to the City's water system and that system's maintenance and management. The Water Commission is also responsible for reviewing and making recommendations to the City Council pertaining to the improvement and extension of the City's water system, including sources, storage, quality, transmission, and distribution.

In accordance with these duties, the Water Commission has historically reported to the City Council annually to provide a comprehensive recommendation about the Water Department's operating and capital budgets, including the Department's multi-year Capital Investment Program that provides details about planned infrastructure projects. Additionally, the Water Commission has worked with Water Department staff to review certain CEQA documents projects and to make recommendations to the Council regarding Council actions on CEQA documents and project approvals.

Per its bylaws, the City's Planning Commission is authorized to hear and decide matters relating to the application of the Zoning Ordinance. This includes the consideration of Design Permit and Special Use Permit applications and the approval of those permits. Here, as explained above, such permits are only needed for certain components of a larger project.

Per Santa Cruz Municipal Code Section 24.04.175.2, the City Council may, by motion, direct the Planning Commission to make a recommendation to the City Council on permit applications which the Planning Commission is otherwise authorized to rule upon, in which case the Council, rather than the Commission, makes the final permit issuance decision.

Staff recommends that the City Council follow that process here, as staff believes that it is in the public interest that the City Council consider the entire GHWTP Facility Improvements Project, including its permit applications, at a single public hearing and that the City Council serve as the final decision maker for all aspects of the Project. We make this recommendation for the following reasons:

- First, this is a project of major importance and application to the City's entire Water Service Area.
- Second, two different Commissions will need to consider different aspects of the Project.
- Third, the Planning Commission's decision-making jurisdiction would be limited, and its permit approvals would be appealable to the Council.

- And finally, the Council will be charged with certification of the Final EIR before approving Project components exempt from the City’s Zoning Ordinance, even in the absence of an appeal from the Planning Commission.

Consequently, it makes sense for the City Council to be the decision maker with respect to the EIR and all aspects of the Project (i.e., both those components requiring permits and those components exempt from the zoning ordinance).

Accordingly, staff recommends that the Council direct staff to coordinate with the Water Commission and Planning Commission so as to obtain Project recommendations from those Commissions with regard to the Project EIR (Water Commission) and Project entitlements (Planning Commission) and have those recommendations simultaneously submitted to the City Council for the Council’s final action on the Project. During the draft EIR public comment period the Planning Commission, like all other agencies and individuals, will have the opportunity to comment on the EIR, which comments will be forwarded to the Council as part of its EIR consideration and action.

It is anticipated that the Project’s draft EIR will be circulated for public/agency comment by Fall 2023, that the necessary Water Commission and Planning Commission hearings will take place by Spring 2024, and that the Project will be presented to the City Council for final action by Summer 2024. It is anticipated that the Project will be constructed and fully operational by 2029.

With respect to the City’s Health in All Policy (HiAP), this item implements a procedural change allowable by Santa Cruz Municipal Code and is consistent with the City’s HiAP decision-making framework.

FISCAL IMPACT: None.

Prepared By:
John G. Barisone
Deputy City Attorney

Submitted By:
Rosemary Menard
Water Director

Approved By:
Matt Huffaker
City Manager

Lee Butler
Director of Planning and
Community Development

ATTACHMENTS:
None.

ACTION AGENDA

City of Santa Cruz
809 Center Street
Santa Cruz, California 95060

CITY COUNCIL REGULAR MEETING

June 13, 2023

Closed Session

10:00 AM

The Presiding Officer **opened** the City Council Closed Session at 10:01 a.m. in a public meeting via Zoom and in Council Chambers, for the purpose of announcing the agenda, and receiving public testimony.

Roll Call - Councilmembers Newsome, Brown, Watkins, Brunner; Vice Mayor Golder; Mayor Keeley.

Councilmembers absent: Councilmember Kalantari-Johnson.

Mayor Keeley opened the public comment period at 10:02 a.m. Mayor Keeley closed the public comment period at 10:08 a.m. and the meeting was adjourned to closed session.

Closed Session

1. Real Property Negotiations (Government Code §54956.8)

Property: Approximately 8.15 acres located on Mount Hermon Road in Scotts Valley, CA

APNs: 022-721-07, 022-721-08, 022-721-09

Owner: City of Santa Cruz

City Negotiator: Bonnie Lipscomb

Negotiating Parties: City of Santa Cruz and City of Scotts Valley

Under Negotiation: Price, terms of payment, or both

Council received a status report from the City Negotiator, and gave direction.

Closed Session (continued)

2. Conference With Legal Counsel - Liability Claims (Government Code §54956.95)

- 1) Claimant: Dominique Townsend
- 2) Claimant: Michael B. Smith
- 3) Claimant: Ginaia Kelly

Claims against the City of Santa Cruz

Council received a status report, took up under agenda item 11, and no reportable action was taken.

3. Conference with Legal Counsel - Anticipated Litigation (Government Code §54956.9(d)(2))

Significant exposure to litigation (one potential case to be discussed - Don Honda May 28, 2023 email message)

Council received a status report, and took no reportable action.

4. Conference with Legal Counsel - Existing Litigation (Government Code §54956.9(d)(1))

- 1) City of Santa Cruz v. The Regents of the University of California, et al. (Santa Cruz County Superior Court Case No. 22CV00373)
- 2) Regents of the University of California, et al. v. City of Santa Cruz (Santa Cruz County Superior Court Case No. 20CV02152)
- 3) Lisa Foster v. City of Santa Cruz, et al. (Santa Cruz County Superior Court Case No. 23CV00638)
- 4) Robert Fleck v. City of Santa Cruz, et al. (Santa Cruz County Superior Court Case No. 23CV01131)
- 5) City of Arcata, et al. v. Pacific Gas and Electric Company (San Francisco Superior Court Case No. CGC-20-585483)

Council received a status report, gave direction, and took no reportable action on items 1, 2, and 5.

Council received a status report and authorized the City Attorney to file cross-complaints related to cases 3 and 4. The details and particulars will be available to members of the public by request once the complaints are filed.

City Council

12:15 PM

Call to Order - at 12:17 p.m.

Roll Call - Councilmembers Newsome, Brown, Watkins, Brunner; Vice Mayor Golder; Mayor Keeley.

Councilmembers Absent: Councilmember Kalantari-Johnson.

Presiding Officer's Announcements

Statements of Disqualifications - Councilmember Brunner announced she is recusing herself from items 24 and 28 as these items have an impact on her employer, the Downtown Association.

Additions and Deletions - None.

City Attorney Report on Closed Session

Presentations

5. Capital Investment Program Presentation
6. Presentation from the Council Ad Hoc Budget and Revenue Committee on Results of Housing Measure Feasibility Work

Council Meeting Calendar

7. The City Council reviewed and did not revise the meeting calendar attached to the agenda.

Consent Agenda

8. Minutes of the May 23, 2023 City Council Meeting (CC)
Motion carried to approve as submitted.
9. Minutes of the May 24, 2023 City Council Special Meeting (CC)
Motion carried to approve as submitted.

Consent Agenda (continued)10. 333 Locust Street Acquisition Agreement and Budget Adjustment (ED)

Motion carried to:

- Adopt Resolution No. NS-30,152 authorizing the City Manager to enter into a Purchase Sale Agreement to purchase the real property located at 333 Locust Street (APN 005-033-03) and execute any and all related documents necessary, in a form approved by the City Attorney; and
- Adopt Resolution No. NS-30,153 amending the FY 2023 budget in the amount of \$1,718,000 to fund the acquisition of the property at 333 Locust Street.

11. Liability Claims Filed Against the City of Santa Cruz (FN)

Motion carried to reject the liability claims of 1) Dominique Townsend, 2) Michael B. Smith, and 3) Ginaia Kelly, based on staff recommendation.

12. General Obligation Refunding Bonds - Tax Rate Authorization (FN)

Resolution No. NS-30,154 was adopted setting the tax rate for FY 2024 with respect to the City's General Obligation Refunding Bonds.

13. Resolution Amending the Personnel Complement and Classification and Compensation Plans for the FY 2023 Budget for the Police Department (HR)

Resolution No. NS-30,155 was adopted amending the Classification and Compensation Plan and the FY 2023 Personnel Complement by approving a classification change in the Police Department.

14. Suspension of the Natural Gas Prohibition Ordinance (PL)

Resolution No. NS-30,156 was adopted suspending enforcement of Santa Cruz Municipal Code 6.100 Prohibition of Natural Gas Infrastructure in new buildings.

Consent Agenda (continued)15. Award Contract for Case 570N EP 4WD Tractor Loader Scraper - Budget Adjustment (PR)

Motion carried to:

- Award a contract for the purchase of one new Case 570N EP 4WD Tractor Loader Scraper from Sonsray Machinery (Salinas, CA) in the amount of \$114,437.70, not to exceed \$150,000 in the event of inflationary increases; and
- Adopt Resolution No. NS-30,157 amending the FY 2023 budget in the amount of \$114,437.70 to facilitate the purchase of a new Case 570N EP 4WD Tractor Loader Scraper from Sonsray Machinery (Salinas, CA).

16. FY 2024 Funding for Senate Bill 1 Road Maintenance and Rehabilitation Account (RMRA) (PW)

Resolution No. NS-30,158 was adopted approving the FY 2024 allocation of SB 1 Road Maintenance and Rehabilitation Account funds and authorizing the City Manager to submit the project list to the California Transportation Commission.

17. Measure D Expenditure Plan: FY 2024-2028 (PW)

Motion carried to approve the proposed Measure D Five-Year Expenditure Plan for FY 2024-2028.

18. Neary Lagoon Tule and Sediment Removal Project (m409668) - Approval of Plans and Specifications and Authorization to Advertise for Bids and Award Contract (PW)

Motion carried to approve the plans and specifications for the Neary Lagoon Tule and Sediment Removal Project (m409668), authorize an exemption from local employment requirements, and authorize staff to advertise for bids and award the contract. The City Manager is hereby authorized and directed to execute the contract as authorized by Resolution No. NS-27,563. The Public Works Director is authorized to execute change orders within the approved project budget.

Consent Agenda (continued)**19. Rising Prices for Tires and Repair Costs for City Vehicles and Equipment - Budget Adjustment (PW)**

Resolution No. NS-30,159 was adopted amending the FY 2023 budget to appropriate funds in the amount for \$70,000 to fund increasing tire purchases and repair expenses.

20. Proposed Resource Recovery Collection Rates Increase (PW)

Motion carried to schedule a Public Hearing for August 8, 2023 on the proposed resource recovery collection rates increase, in accordance with State law, including a mailed notice to property owners.

21. Graham Hill Water Treatment Plant Facility Improvements Project - Update Report / City Council Direction (WT/PL)

Motion carried to:

- Notify the Water and Planning Commissions that the Graham Hill Water Treatment Plant Facility Improvements Project (Project) will be brought to the City Council for final consideration and action on the Environmental Impact Report (EIR), discretionary permits/entitlements, and final project approval per Santa Cruz Municipal Code 24.04.175.2; and
- Direct staff to coordinate with the Water and Planning Commissions to obtain project recommendations from those commissions on the Project EIR (Water Commission) and Project entitlements (Planning Commission) prior to Council's final action on the Project.

Consent Agenda (continued)

22. Loch Lomond Reservoir Oxygen Diffuser System - Notice of Completion (WT)

Motion carried to:

- Ratify Change Order No. 1 with Mobley Engineering Inc. (Norris, TN) related to redesign of the system to accommodate differing field conditions and several delays and remobilizations to the project in the amount of \$53,521.80; and
- Accept the work of Mobley Engineering Inc. (Norris,TN) as complete per the agreement and authorizing the filing of a Notice of Completion for the Loch Lomond Reservoir Oxygen Diffuser System and to authorize the Water Director to sign the Notice of Completion as the Owner’s Authorized Agent.

23. Contract Amendment 2024-01 with HDR Inc. for Capital Program Management Services (WT)

Motion carried authorizing the City Manager to execute Contract Amendment No. 2024-01 with HDR for Service Order No. 9 in the amount of \$6,933,644 in a form to be approved by the City Attorney.

End Consent Agenda

Consent Public Hearings

24. Downtown Association: Parking and Business Improvement Area Assessments for FY 2024 (ED)

Resolution No. NS-30,160 was adopted confirming the Parking and Business Improvement Area FY 2024 Plan prepared by the Downtown Association and levying the Parking and Business Improvement Area Assessments for FY 2024.

Consent Public Hearings

25. Expansion of Technology Surcharge (PL)

Motion carried to:

- Adopt Resolution No. NS-30,161 to rescind Resolution No. NS-27,559, the Council's 2007 Technology Surcharge resolution, and expand the application of a six (6) percent Technology Surcharge to certain fees collected by the Planning and Community Development, Finance, Public Works, Parks and Recreation, Fire, and Water Departments; and
- Direct staff to take related implementation actions.

Public Hearings

26. Tree Appeal 233 Union Street (PR)

Resolution No. NS-30,162 was adopted to deny the appeal and uphold the Parks and Recreation Commission's approval of tree removal permit application # 23-0005 submitted by Dorth Raphaely to remove two Coast Redwood trees located at 233 Union Street.

27. Ordinance Amending Select Portions of Chapter 10.40 and Section 10.41.060 of the Santa Cruz Municipal Code, Pertaining to the Parking of Oversized Vehicles (PL/CA)

Motion carried to introduce for publication Ordinance No. 2023-08 amending select portions of Chapter 10.40 and Section 10.41.060 of the Santa Cruz Municipal Code, pertaining to the parking of oversized vehicles.

General Business

28. Cooperative Retail Management Business Real Property Improvement District Assessments for FY 2024 (ED)

Motion carried to:

- 1) Approve the FY 2023 Annual Report and FY 2024 Plan prepared by the Downtown Management Corporation;
- 2) Adopt Resolution No. NS-30,163 as a Resolution of Intention to levy a Cooperative Retail Management Business Real Property Improvement District Assessment for FY 2024 and schedule a public hearing for June 27, 2023, after the hour of 1 pm, on the levy of the assessments for FY 2024; and
- 3) Introduce for publication Ordinance No. 2023-09 confirming that Chapter 5.06 of the Santa Cruz Municipal Code shall apply to the Cooperative Retail Management Business Real Property Improvement District within the District’s modified boundaries and to the increased assessments approved and levied by the City Council for the District’s 2023-2024 Fiscal Year.

29. Fiscal Year 2024 Proposed Budget

29.1. Fiscal Year 2024 Proposed Budget Adoption (FN)

Motion carried to:

- 1) Adopt Resolution No. NS-30,164 adopting the Fiscal Year (FY) 2024 Budget including the Capital Investment Program (CIP), effective July 1, 2023; authorize the City Manager to allocate within the applicable funds the FY 2024 Schedule of Administrative Budget Changes to the appropriate accounting classifications and to approve related and applicable transfer in/out between funds; and authorize the Finance Director to create additional appropriations to provide for commitments carried over from the prior fiscal year, including contract and purchase order encumbrances and unexpended project balances, so long as there is a sufficient fund balance to finance these commitments; and
- 2) Accept the Water Commission’s recommendations regarding the Water Department’s FY 2024 Operating and Capital Investment Program (CIP).

General Business (continued)

29. Fiscal Year 2024 Proposed Budget (continued)

29.2. Resolution Amending the City of Santa Cruz Personnel Complement and Classification and Compensation Plans for the Public Works, City Manager, Finance, Parks and Recreation, Police, Water, Fire, Library and Human Resources Departments (HR)

Resolution No. NS-30,165 was adopted amending the Classification and Compensation Plans for the FY 2024 budget personnel complement by implementing the approved FY 2024 budget/position changes in several departments.

Oral Communications Announcement - The Mayor provided a brief announcement about Oral Communications.

At 4:45 p.m. Mayor Keeley opened Oral Communications. Mayor Keeley closed Oral Communications at 4:48 p.m.

Adjournment - At 4:48 p.m., motion carried to adjourn.

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WATER COMMISSION INFORMATION REPORT

DATE: 05/28/2024

AGENDA OF: 06/03/2024
TO: Water Commission
FROM: Heidi Luckenbach, Water Director
SUBJECT: Water Supply Augmentation Implementation Plan Quarterly Report

RECOMMENDATION: That the Water Commission receive the Water Supply Augmentation Implementation Plan Quarterly Report and provide feedback.

BACKGROUND AND DISCUSSION: Attached is an abbreviated update of the work performed on the Water Supply Augmentation Implementation Plan (WSAIP) since the last update provided at the Water Commission's April 01, 2024 meeting. Due to the frequency with which the Water Commission is receiving updates on the various items of work related to water supply augmentation, this progress report is abbreviated and does not include updated attachments for risk, budget, and schedule. These items will be updated for a future meeting.

A presentation will be provided at the meeting allowing for discussion about the history, assumptions, and background documents involved in forming the WSAIP. The purpose is to contextualize the WSAIP to support decision-making in the coming months.

FISCAL IMPACT: None.

PROPOSED MOTION: Receive information and provide feedback to staff on the material presented.

ATTACHMENT(S):

1. Progress Report

**City of Santa Cruz
Water Supply Augmentation Implementation Program
Work Performed April 2024 through May 2024**

Progress Report

The purpose of the report is to summarize key efforts on each element related to water supply planning for the City of Santa Cruz Water Department, with links provided for additional information. This progress report is updated monthly for internal reporting and quarterly for external reporting.

PROJECTS AND EFFORTS REPORTED ON BELOW

Additional information on the City’s Website: [Water Supply Planning](#)

The Department’s Water Supply Program consists of several work elements as described below. These elements are fairly discrete and independent in terms of scope of work, budget, and schedule; however, there is overlapping work being performed in the effort of developing reliable water supply solutions for the City of Santa Cruz water customers.

Water Supply Augmentation (WSA): Refers to work associated with non-specific supply alternatives, i.e., planning-level tasks such as climate and water supply modeling that support the evaluation of all supply alternatives.

Aquifer Storage and Recovery (ASR): Includes the evaluation, piloting, demonstration, design, and construction or modification of existing and new ASR wells. Also includes water quality analyses, well capacity studies, and basis of design reports.

Recycled Water (RW): In addition to the study of water supply alternatives using recycled water, this project includes the design and construction of the 6” diameter tertiary pipeline located at the City’s WWTF for the future use of tertiary water off-site for irrigation and other end-uses.

Regional Coordination: Focuses on the various efforts between the City of Santa Cruz (City) and neighboring water agencies; specifically, Soquel Creek, Scotts Valley, and San Lorenzo Valley Water Districts. Includes activities related to groundwater sustainability agencies such as the Optimization Study being performed through the Santa Cruz Mid-County Groundwater Agency and other related modeling.

Riverbank Filtration (RBF): A method of extracting water from a river through wells installed in the vicinity of the flowing source. Wells may be vertical or horizontal and located within or outside the flowing source. RBF is reported on here due to its potential contribution towards water supply reliability.

WORK ONGOING OR COMPLETED IN THE REPORTING PERIOD

Water Supply Augmentation (WSA)

Developed scopes of work for hydraulic and water quality modeling to evaluate potential impacts of incorporating water sources from Scotts Valley Water District, Soquel Creek Water District, and ASR.

Finalized plans and specifications for the construction of the water supply intertie with Scotts Valley Water District and initiated bidding.

Completed groundwater modeling for the Optimization Study as reported to the Water Commission in May.

Aquifer Storage and Recovery (ASR)

Beltz 9 ASR Pilot Test

Pilot testing and monitoring program will continue through June 2024

- Cycle 1: Completed (11/5/23-11/9/23)
- Cycle 2: Completed (11/13/23-12/11/23)
- Cycle 3: In progress. The third cycle attempts to achieve 30 days of injection, 60 days of storage, and 30 days of extraction. Injection began on February 28th, the 60-day storage period began April 1st, and extraction is scheduled to begin June 5th.

**City of Santa Cruz
Water Supply Augmentation Implementation Program
Work Performed April 2024 through May 2024**

Beltz 8 and 12 ASR

Carollo Engineers submitted the 60% design for the conversion of Beltz Wells 8 and 12 to permanent ASR wells.

Other

S.S. Papadopulos & Associates submitted a geochemical analysis to understand potential adverse water quality impacts resulting from the blending of injected water and native groundwater in the aquifer, with a particular focus on the source and potential release mechanisms of mercury to groundwater. As noted previously, this geochemical analysis follows the ASR Demonstration Studies, during which mercury was detected at Beltz 12 and Cory 4 Monitoring Well in the extended storage period in 2023; while mercury levels were well below the Maximum Contaminant Limit (MCL) and subsequently declined to non-detectable levels, this was the first time mercury has been detected at the site since ASR operations began in 2019 and warrants further investigation.

Staff continue to review the Summary of Operations Reports for Years 1 (2022) and 2 (2023) of the ASR Demonstration Studies. These reports inform decisions about future ASR: size, number of wells, operating parameters.

Recycled Water

Attachment 1 includes follow up information from the Water Commission’s April meeting on the status and next steps to utilize the new infrastructure at the City’s WWTF including the new tertiary treatment facility and the new 6” pipeline.

Regional Collaboration

The SVWD/City intertie project was approved by City Council on May 28th and will be out for bid during June. All easements have been obtained, and coordination with the public in general as well as localized stakeholders like Brook Knoll School are underway. Construction is anticipated to begin late fall of 2024.

Mid-County Groundwater Basin

The Commission received an update on the grant-funded Optimization Study at their May meeting. Additional components of the study that are also underway include hydraulic modeling to understand the improvements needed within each agencies distribution systems to accommodate the various alternatives, or tracks.

Santa Margarita Groundwater Basin

In addition to the SVWD/City intertie, staff have been working together to define future alternatives that may be considered including the San Lorenzo Valley Water District’s Conjunctive Use Study that will consider how the SLVWD would incorporate their Loch Lomond allotment into their system. Proposals are due June 10, 2024.

Riverbank Filtration (RBF)

No new report.

NEAR-TERM ACTIVITIES (TWO – FOUR MONTHS)

Water Supply Augmentation (WSA)

Extend the professional services contract with Simon Fraser University (Dr. Shawn Chartrand previously with Balance Hydrologics) for an additional year to:

- Develop hydrologic data for each climate scenario;
 - Complete a training manual, document assumptions, and finalize workflow;
 - Integrate the data into the UMass water supply model; and
 - Train staff on the use of the model.
-

**City of Santa Cruz
Water Supply Augmentation Implementation Program
Work Performed April 2024 through May 2024**

Continue collaboration with Soquel Creek Water District to optimize transfers at the O’Neill interconnection including finalizing a Standard Operating Procedure, installing sample tap(s), and installing a corrosion-inhibitor feed system.

Aquifer Storage and Recovery (ASR)

Beltz Well 9 ASR Pilot Test

- Complete Cycle 3.

Beltz Wells 8 & 12 ASR

- Finalize review of the geochemical evaluation by S.S. Papadopoulos & Associates and consider next steps in terms of additional analysis.
- Receive 100% design drawings from Carollo for conversion of wells to permanent ASR wells.

Other

Improvements at Beltz Well 12 to install treatment for occasional occurrence of ammonia from this portion of the basin. Phase 1 included installation of a contact tank and is complete; bids for Phase 2 to install a new onsite chlorine generation system have been received. Phase 2 would allow the facility to treat higher concentrations of naturally occurring ammonia and restore the reliable operation of the treatment plant throughout the dry season. The construction contract is being negotiated and Phase 2 is expected to be operational in December 2024. (Note, only one bid was received; staff are negotiating contract terms including pricing.)

Recycled Water

No new report.

Regional Collaboration

General

SVWD Intertie Project: Continue developing the operating agreement, award construction contract, continue with stakeholder outreach, begin construction.

Mid-County Groundwater Basin

- Optimization Study: Complete hydraulic modeling.
- Begin other components of the Optimization Study that include environmental review, review of funding opportunities, and framework for pay structures.

Santa Margarita Groundwater Basin

- Develop additional groundwater scenarios to evaluate near- and long-term use of this SVWD/City intertie.
 - Collaborate with SLVWD on conjunctive use project.
-

Riverbank Filtration

Next steps include:

- Review summary cost/benefit report and define future project(s) to install additional vertical wells.

SCHEDULE HIGHLIGHTS {Additional information attached and on the City’s website: [Water Supply Schedule](#)}

The schedule has not been updated since April of 2024. One issue in particular that will have impacts to schedule is the delay with the approval of the water rights. This delay has long term impacts on the ability to take the Felton Water Right at Tait Street Diversion, move water throughout the City’s service area (change of place of use), and ability to store and retrieve surface water.

City of Santa Cruz
Water Supply Augmentation Implementation Program
Work Performed April 2024 through May 2024

PROJECT RISKS {See attachment for list of current risks}

As noted, the risk register has not been updated since April of 2024. Staff will be conducting a risk-review workshop on June 12, 2024. Unresolved risks include the following with particular concern surrounding, and attention being paid to, those in bold:

- Source water availability for both ASR and recycled water alternatives
- Water quality compatibility when incorporating transfers through two interties and ASR water
- Funding
- Permitting
- **Rising costs of construction projects and limited bids**
- **Ongoing delays in materials**
- **Coordination across other capital projects**

BUDGET UPDATE {See attachment for summary budget}

As noted, the budget has not been updated since April of 2024. Of ongoing note, however, are the rising costs for construction.

**City of Santa Cruz
Water Supply Augmentation Implementation Program
Work Performed April 2024 through May 2024**

Commonly Used Acronyms: {For complete list of Acronyms and Terms [Acronyms and Glossary of Terms](#)}

ASR	Aquifer Storage and Recovery	SGMA	Sustainable Groundwater Management Act
BCE	Business Case Evaluation	SMGWA	Santa Margarita Groundwater Agency
BOD	Basis-of-Design	SMGWB	Santa Margarita Groundwater Basin
GSA	Groundwater Sustainability Agency	SOP	Standard Operating Procedure
GSP	Groundwater Sustainability Plan	SOQ	Statement of Qualifications
IRWM	Integrated Regional Water Management	SVWD	Scotts Valley Water District
MGA	Mid-County Groundwater Agency	SqCWD	Soquel Creek Water District
NCP	Newell Creek Pipeline	WIFIA	Water Infrastructure Finance and Innovation Act
RBF	Riverbank Filtration	WSA	Water Supply Augmentation
RFQ	Request for Qualifications	WSAIP	Water Supply Aug. Implementation Plan
RWQCB	Regional Water Quality Control Board	WTP	Water Treatment Plant
SLVWD	San Lorenzo Valley Water District	WWTF	Wastewater Treatment Facility

Links:

- Reports and Other Resources: [Online Reports](#) (This link will be modified as website continues to be updated. Also included will be any relevant Council and other Board meetings and actions.)
- WSAIP components and schedule: [WSAIP Components and Schedule](#)

Progress Report Attachments:

- Attachment 1: Additional Information on Non-Potable Reuse Opportunities



Water Supply Augmentation Implementation Plan

April 1, 2024 Water Commission Meeting
Additional Information Following Commission Discussion

Question: What are the opportunities and next steps to utilize the new tertiary treatment system and 6” recycled pipeline at the City’s Wastewater Treatment Facility?

City of Santa Cruz Non-Potable Existing Recycled Water System

The City of Santa Cruz Wastewater Treatment Facility (WWTF) uses a reclaimed water system that treats secondary wastewater for daily wastewater facility operations, such as equipment cleaning, pump priming, and chemical dilution. Disinfected secondary treated wastewater effluent is diverted to the existing reclaimed water system, where it is filtered, disinfected, and reused for wastewater facility applications.

The existing reclaimed water system is being replaced with a new non-potable disinfected tertiary recycled water system as part of the Pure Water Soquel (PWS) Project development.

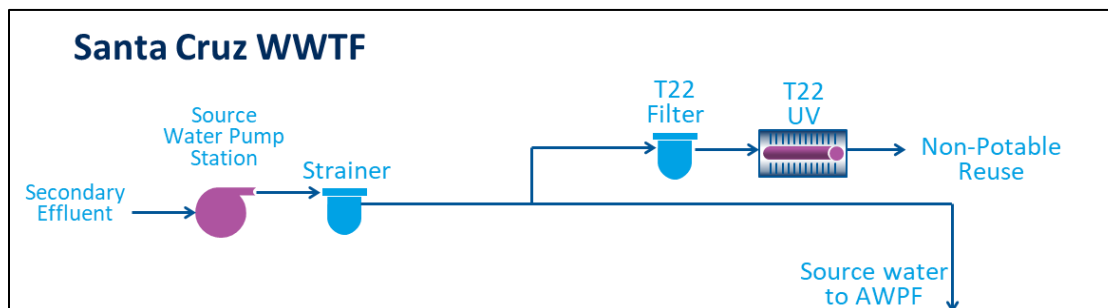
Pure Water Soquel Project Background

The City of Santa Cruz (City) and Soquel Creek Water District have developed a mutually beneficial arrangement as part of the PWS Project, in which the City provides source water to the PWS Project and the PWS Project includes the installation of a new recycled water treatment system at the WWTF.

The PWS Project is supplied by the City of Santa Cruz WWTF from a new source water pump station located within the WWTF. The same pump station will also provide feedwater to the new non-potable disinfected tertiary recycled water system. This new recycled water system will produce disinfected tertiary recycled water to be used for the same on-site WWTF plant uses as supplied by the previous reclaimed water system (equipment cleaning, pump priming, and chemical dilution), while providing a higher quality of recycled water and the ability of being used off-site.

The components for the new recycled water treatment system at the WWTF are shown in Figure 1. The source water pump conveys secondary effluent to a strainer before splitting into two streams, one of which sends the source water to the PWS Advanced Water Purification Facility (AWPF), and the second which goes into the City non-potable recycled water system that uses a Title 22 filtration system and ultraviolet disinfection to produce disinfected tertiary recycled water.

Figure 1. Santa Cruz Recycled Water System Flow Diagram (from City of Santa Cruz Non-Potable Reuse Engineering Report)



Recycled Water System Capacity and Demands

The City conducted a Recycled Water Feasibility Study in 2017 (Kennedy Jenks) and is currently updating that study to further evaluate potential for expanded uses of recycled or purified water in the City service area. The 2017 study identified the City Non-Potable Recycled (NPR) Water Project as the recommended opportunity to expand uses of non-potable recycled water in Santa Cruz. The project considered using the disinfected tertiary recycled water produced at the WWTF to serve the non-potable demands at the WWTF, irrigation demands at the adjacent La Barranca Park and Neary Park, and a new recycled bulk water fill station.

The new recycled water system was planned to meet the estimated demands for the non-potable project identified in the 2017 study, sized to produce 300 acre-feet per year (AFY) or approximately 250,000 gallons per day (gpd). The estimated demands are summarized in Table 1.

Table 1. Non-Potable Recycled Water System Demands (from Recycled Water Feasibility Study, 2017)

	Total Demand (gpd)	Peak Demand (gpd)
In-plant Use	126,000	193,000
Bulk Water Station Use	4,800	11,000
La Barranca Park	800	2,700
Neary Park	800	3,800
TOTAL	132,400	210,500

The proposed recycled water uses include:

1. **In-plant use:** Recycled water used onsite at the WWTF that would replace the existing use of secondary reclaimed water.
2. **Bulk water station use:** Currently, potable water is provided to construction contractors through four bulk water stations located around the City's service area. Potable water provided in 2014 between three bulk water stations was reported to be an average of 4,800 gallons per day with a peak day use of approximately 11,000 gallons per day (City of Santa Cruz Water Department 2016). In 2015, a fourth bulk water station was installed. A fifth bulk water station would provide recycled water for similar purposes.
3. **City parks:** Provide an opportunity to showcase using recycled water to the community. Title 22 recycled water would be provided to offset potable use for landscape irrigation at La Barranca Park and Neary Park. La Barranca Park is adjacent to the Wastewater Treatment Facility and contains over 75,000 square feet of irrigated area. The average potable water used to irrigate La Barranca Park and Neary Park from 2012 to 2014 was approximately 800 gpd at each park. The parks have a peak use of approximately 2,700 gpd and 3,800 gpd respectively. Irrigation of the parks would occur primarily at night, from 9:00 pm to 5:00 am.
4. **Residential fill station:** Would provide an opportunity for the community to access recycled water for outdoor irrigation. The public fill station could be located at the bulk water station. The residential fill station would likely be open during typical working hours during the summer months. The demands for this use would be minimal.

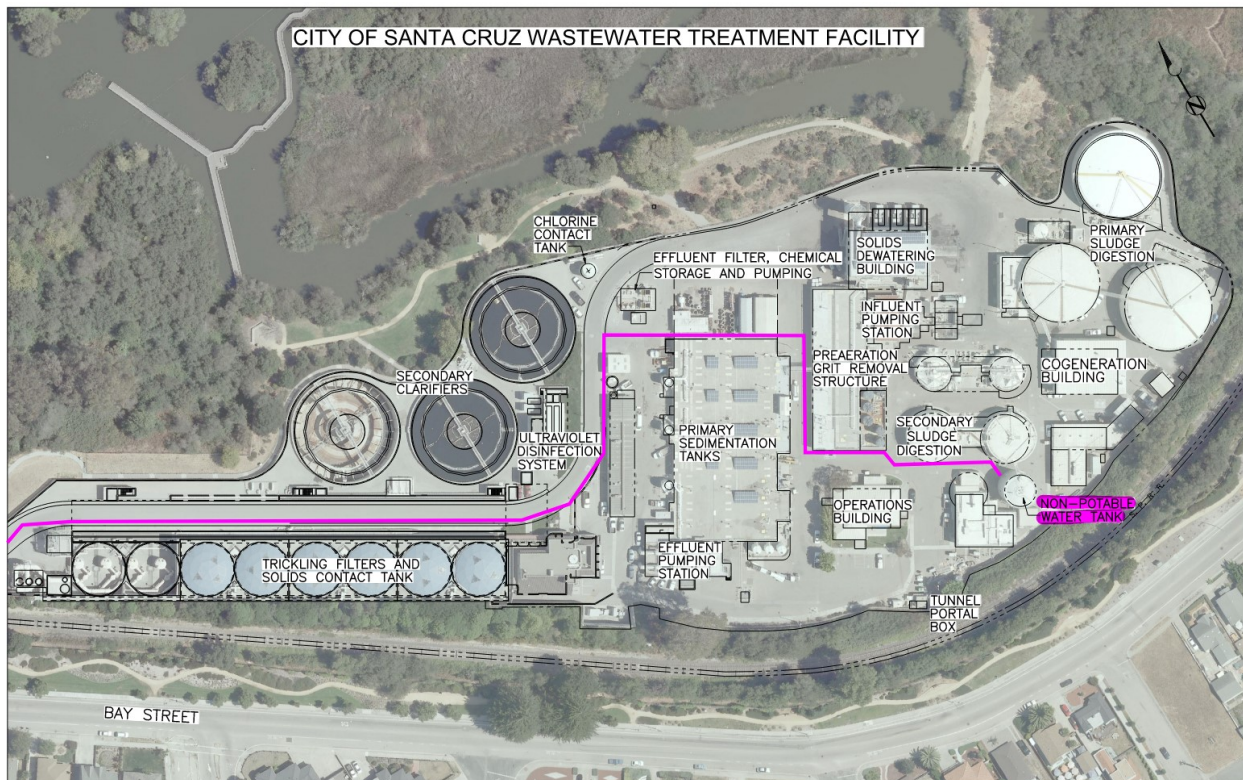
La Barranca Recycled Water Project

La Barranca and Neary Parks are adjacent to the WWTF. To supply these parks with recycled water, a connection needs to be designed and installed to supply their irrigation systems with recycled water.

The new recycled water system would send recycled water to the existing Non-Potable Water Tank at the WWTF for storage and to serve in-plant demands. To supply recycled water outside of the WWTF to the parks, a new pipeline and pump station is needed to connect the two Water Storage Tanks to the irrigation systems at La Barranca and Neary Park.

As part of the improvements at the WWTF, a new 6-inch recycled water line was constructed, starting near the two Water Tanks and extending through the WWTF towards the plant entrance at the approximate routing shown below in Figure 2. The two ends of this pipeline will be capped for future connections once these off-site projects are approved. The pipeline end near the Non-Potable Water Tank would need to be connected with a pump station to the storage tank for recycled water supply, and the end near the WWTF entrance will need to be extended to connect to La Barranca and Neary Parks irrigation systems (and a bulk water station should that be approved).

Figure 2. New Recycled Water Supply Line



To complete the project to serve La Barranca and Neary Parks, the following components need to be designed and constructed:

1. A new supply pump station to pump recycled water from the Non-Potable Water Tank to the parks irrigation systems.
2. An extension of the recycled water pipeline from the end point to the connections to the parks irrigation systems.
3. Retrofitting the parks irrigation systems as required for recycled water use and compliance with regulatory requirements. Retrofits typically include replacing any irrigation hose bibs with quick coupling valves, adding proper signage for areas using recycled water for irrigation to notify the public, using purple color labeled signage and tags to identify recycled water system components, installing backflow preventers where needed, and ensuring there are no cross connections between the irrigation (recycled water) system and potable supply systems. Typical retrofit components are shown in the following pictures.

Figure 3. Purple Cap Quick Coupler Valve for Recycled Water Irrigation



Figure 4. Recycled Water Identification Tags



Figure 5. Recycled Water Identification Signs



Permit Requirements

The City of Santa Cruz would need to obtain a recycled water permit from the Central Coast Regional Water Quality Control Board (RWQCB) and the Division of Drinking Water (DDW) for the production and distribution of recycled water. The first step has been completed with the preparation and submittal to DDW of a Title 22 Engineering Report.

To obtain permit approval from the Central Coast RWQCB for the irrigation of La Barranca and Neary Parks with recycled water, the irrigation systems need to be retrofitted for recycled water use and cross-connection testing needs to be completed to guarantee that there are no cross connections between the irrigation systems (that would be served with recycled water) and any potable water distribution systems. Additionally, a monitoring, operations, and training program would need to be developed for the system.

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WATER COMMISSION INFORMATION REPORT

DATE: 05/24/2024

AGENDA OF: 06/03/2024

TO: Water Commission

FROM: Heidi Luckenbach, Water Director

SUBJECT: Santa Cruz Mid-County and Santa Margarita Groundwater Agencies
Advisory Body Report

RECOMMENDATION: That the Water Commission receive information on the Santa Cruz Mid-County and Santa Margarita Groundwater Agencies.

BACKGROUND/DISCUSSION:

Santa Cruz Mid-County Groundwater Agency (MGA)

No new report.

The last meeting of the MGA was on March 21, 2024. Materials for all MGA meetings can be found here: <https://www.midcountygroundwater.org/committee-meetings>

The next meeting of the MGA will be June 20, 2024, at 6:00 PM.

Santa Margarita Groundwater Agency (SMGWA)

The last meeting of the SMGWA was on May 23, 2024. Materials for this meeting can be found here: <https://twistcms-shared.s3.us-west-2.amazonaws.com/meetings/113/agendas/3387.pdf>

Summary of items discussed:

- A presentation summarizing the 2024 groundwater level monitoring and streamflow monitoring showed that levels were higher in 6 of the 8 representative wells despite rainfall levels being only slightly above average for the current water year. Streamflow

monitoring showed that May 2024 flows are lower than in 2023, but significantly higher than in both 2021 and 2022.

- The board agreed on a financial reserve policy, targeting 20% of the operating budget as a reserve limit. The board directed staff to revise the proposed Fiscal Year (FY) 2025 fees to reflect the approved policy.
- Review of the proposed FY 2025 budget, which focused on the following topics:
 - The purchase, installation, and annual monitoring of a data logger on Carbonera Creek to fill a data gap identified during the development of the Groundwater Sustainability Plan.
 - Procuring a consultant to assess opportunities for long-term funding of the Groundwater Sustainability Agency. Issues particularly unique to the SMGWA are the small amount of groundwater pumped, limited agricultural groundwater pumpers, and small customer base, making some options less viable for this basin compared to other basins in the state.

The next meeting of the SMGWA will be August 22, 2024, at 6:00 PM.

FISCAL IMPACT: None.

PROPOSED MOTION: No motion required; this item is information only.

ATTACHMENTS: None.

News and Information, June 3, 2024

Opposing views of Monterey Peninsula water supply filed with regulator

Dennis Taylor, Monterey Herald 5/3/24

SACRAMENTO – Roughly a half-dozen agencies, governments and a nonprofit group have filed briefs with a state regulator that could determine whether or not California American Water Co. gets the OK for its years-long effort to build a desalination plant on the Monterey Peninsula.

The issue comes down to whether the peninsula will have enough water to meet the demand for the next three decades by tapping into recycled water, or whether a desal plant will be needed. Administrative Law Judge Robert Haga will examine the April 30 filings, render an up-or-down proposed ruling and ship it off to the five-member California Public Utilities Commission to vote on.

In late 2022, Cal Am won the hearts of the California Coastal Commission when the 12-member appointed body approved a permit allowing Cal Am, an investor-owned utility, to move forward with the desal plant in Marina. But for Cal Am, it was a double-edged sword.

In the Coastal Commission's permit approval, despite a public outcry that ran roughly 4-1 against the desal project, the commission laid down some 20 conditions that need to be met before the first Cal Am shovel hits the ground. Many water watchers say some of the conditions are so stringent they would be extremely difficult for Cal Am to meet. Among them, Cal Am must receive approval by the CPUC.

Tuesday's filings were arguments meant to persuade the judge on the overriding question of supply and demand. Six of the seven filings contain evidence that Monterey One Water's Pure Water Monterey Expansion recycling project will produce

more than enough water to meet the demand for the next three decades. The one counter filing was Cal Am's.

Remleh Scherzinger, the general manager of Marina Coast Water District, one of the parties in the CPUC proceedings, said that supply and demand estimates by his agency, the Monterey Peninsula Water Management District, Pure Water Monterey and other public agencies, are fairly in alignment. The one outlier is Cal Am.

"Monterey Coast's expert witness, Peter Mayer, is a nationally recognized authority on water demand management, Scherzinger said Thursday in an email interview. "He has consulted extensively for the California Department of Water Resources and the Metropolitan Water District" in Los Angeles.

What Mayer's and experts from other agencies' data indicate is that not only will there be enough water from recycling until 2050, there will be some left over.

"Marina Coast believes the evidence shows that when the Pure Water Monterey Expansion supply is added, there will be enough permanent supply for Cal Am to lift its (state imposed) moratorium, accomplish its Seaside Basin payback and continue meeting customer demands with at least a 10% supply cushion through 2050 without the need for any additional supply source," Scherzinger said.

Cal Am in its filing also stated it based its estimated demand for the Monterey service area on expert analyses, state standards and requirements and "judicious assessments of the future needs of the Monterey customers, businesses and community."

By the numbers, Cal Am says the Peninsula will need roughly 14,800 acre-feet of water by 2050 to meet the demand. One acre foot equals 325,851 gallons. But the California Public Advocate's Office, a state agency independent of the CPUC, which is charged with looking out for ratepayers, puts the annual 2050 demand at 10,254

acre-feet. Analysis by the Monterey Peninsula Water Management District has a nearly identical estimate for 2050 of 10,559 acre-feet.

Why the discrepancy? The Peninsula water district says the answer is simple: “Cal Am grossly overstates demand,” the district said in its filing with the CPUC. Dave Stoldt, the general manager of the Peninsula district has explained that in order for Cal Am to reach its demand figures, it had to double and even triple count population.

For example, Cal Am includes “lots of record” along with estimated population growth, according to the Peninsula water district’s filing. In Stoldt’s view, Cal Am is counting the vacant lots and the people who would live on that lot. “People use water, not lots,” Stoldt has said.

Cal Am isn’t budging on its estimates.

“The examples provided by those opposed to the desalination project are looking only in the near term and not looking responsibly into the future demand needs of the Monterey Peninsula,” said Josh Stratton, the manager of external affairs for Cal Am, on Friday.

In recent years demand has been retreating because of stepped up conservation efforts and possibly the high cost of Cal Am water, which is one of the highest in the country. Melodie Chrislock, the managing director of Public Water Now, which in 2018 launched the successful Measure J that called for the Peninsula water district to acquire the Monterey Peninsula assets of Cal Am.

“The Monterey Peninsula is using 22% less water than we did 10 years ago,” Chrislock said on Friday, alluding to the high cost of Cal Am water. “Anyone who pays a Cal Am bill knows why. But Cal Am is telling the CPUC that its Peninsula customers will simply start using more water, no matter what the cost. Has Cal Am really missed a basic principle of economics – when the price goes up, demand goes down – or is lying to the CPUC the new norm for Cal Am?”

Public Water Now has filed its own brief with the CPUC.

The Public Advocate's Office in its 20-page brief said Cal Am has stated two different demand estimates – one for an application with the CPUC to increase rates, called a General Rate Case, and a different demand estimate in the supply and demand forecasts that were filed, a difference of 18%.

“Cal Am has not provided a satisfactory explanation for why its demand forecasts in the current application are approximately 18% greater than the demand forecasts it has submitted to the Commission in its current (rate case) application,” the Advocates Office said in its Tuesday filing.

Cal Am says it's because the rate case demand is based on forecasts for 2024.

One question Cal Am raises with the CPUC is what it says is an uncertainty of the source water for Pure Water Monterey's expansion project, and cites drought years that could potentially decrease the supply. The recycling project uses waste water that is purified to a potable level and then injected into a large aquifer called the Seaside Basin. It's from that aquifer that Cal Am pumps water to customers.

“We have been fortunate enough to have had two recent wet years in a row, but there still exists a need for a drought-proof water supply in desalination,” Stratton said.

But Monterey One Water in its 28-page filing said as the owner and operator of Pure Water Monterey, it is in the best position to project the current and anticipated availability of source water and expected Pure Water production, citing a signed contract, called a Water Purchase Agreement, with Cal Am to deliver a specific minimum supply every year.

“(Monterey One Water) has also put its money where its mouth is in terms of executing the (Water Purchase Agreement) and committing to supply sufficient pure water to allow Cal Am to draw 5,750 acre feet from the Seaside Basin,” regardless if

the region was experiencing a drought year or not, Monterey One said in its 32-page filing. “Cal Am curiously has attempted to question the viability of source waters despite its contractual rights in the (Water Purchase Agreement).”

Chrislock, with Public Water Now, put the reliability of Pure Water Monterey this way: “What are people going to do, stop showering? Stop flushing the toilet?”

As for Cal Am, it says that in the long run, the Peninsula will need additional water.

“California American Water stands by our demand data because the Monterey Peninsula needs replacement water for the mandatory 70% (state mandated) pumping reductions made to the Carmel River,” Stratton said, “and desalination achieves that long-term goal.”