



Water Department

Water Commission Agenda
Regular Meeting
7:00 p.m. – Monday, June 2, 2014
Council Chambers
809 Center Street, Santa Cruz

Agenda

Call to Order

Roll Call

Presentation *Organized groups may make presentations to the Water Commission. Presentations that require more than three minutes should be scheduled in advance with Water Department staff.*

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 No action shall be taken on this item.

Announcements No action shall be taken on this item.

Approval of Minutes ☆ (Pages 5-8)

Recommendation: Motion to approve the May 5, 2014 Water Commission Minutes.

Consent Agenda (Pages 9-44)

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.

1. City Council Items Affecting Water ☆ (accept info) (Page 9)
2. Operating Budget Overview ☆ (accept info) (Pages 11-32)
3. Transfer of Rate Stabilization Funds ☆ (accept info) (Pages 33-36)
4. Update on Recycled Water Transfer with Scotts Valley District & Pasatiempo Golf Course – Status Update ☆ (accept info) (Pages 37-38)
5. Correspondence from Chancellor George Blumenthal dated 5/1/14 ☆ (accept info) (Pages 39-40)
6. Abstention Memo ☆ (accept info) (Pages 41-42)

7. Water Commission Minutes Memo ☆ (accept info) (Pages 43-44)

Items Removed from the Consent Agenda

General Business (Pages 45-57)

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.

1. Work Session on Fish Flows ☆ (Pages 45-46)

Recommendation: Receive report.

2. Leadership and Sustainability Initiative ☆ (Pages 47-56)

Recommendation: Receive report and provide comments.

3. Introduction to Santa Cruz Water Department's Financial Model ☆ (Page 57)

Recommendation: Receive report and provide comments.

Subcommittee/Advisory Body Oral Reports No items.

1. WSAC Update (Oral Report)

Recommendation: None. Receive Update Only.

Director's Oral Report No action shall be taken on this item.

1. Monthly Status of Water Supply (to be distributed at meeting)

Documents for Future Meetings No action shall be taken on this item.

The following document is being included in this agenda packet in order to provide ample review time. It will be an item of business and will include a staff report at a future meeting.

Items Initiated by Members for Future Agendas

Adjournment The next meeting of the Water Commission is scheduled for July 7, 2014 at 7:00 p.m. in Council Chambers.

☆Denotes written materials included in packet

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.

Other - 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.

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 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 arrangement can be made. The Cal-Relay system number: 1-800-735-2922.

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Water Department

Water Commission
7:00 p.m. – Monday, May 5th, 2014
Council Chambers
809 Center Street, Santa Cruz

Minutes of a Water Commission Meeting

Call to Order – Chair D. Baskin called the meeting to order at 7:00 p.m. in the City Council Chambers.

Roll Call

- Present:** D. Baskin (Chair), G. Mead, A. Schiffrin (arrived at 7:04p.m.), D. Schwarm, D. Stearns, and L. Wilshusen.
- Absent:** W. Wadlow (Vice-Chair), with notification.
- Staff:** R. Menard, Water Director; S O’Hara, Assistant Engineer II; T. Goddard, Water Conservation Manager; N. Dennis Principal Management Analyst; H. Luckenbach, Deputy Water Director/Engineering Manager; G. Rudometkin, Administrative Assistant III.
- Others:** Approximately 10 members of the public.

Presentation – There were no presentations.

Statements of Disqualification – There were no statements of disqualification.

Oral Communications – Oral and written communications provided by S. McGilvray. Oral communications provided by S. Holt.

Announcements –There were no announcements.

Approval of Minutes

Commissioner A. Schiffrin moved approval of April 7th, 2013 Water Commission minutes. Commissioner L. Wilshusen seconded.

VOICE VOTE: MOTION CARRIED

AYES: A. Schiffrin, D. Stearns, D. Schwarm and L. Wilshusen.

NOES: None.

ABSTAINED: D. Baskin and G. Mead, due to absence from the April 7th meeting.

ABSENT: W. Wadlow.

Consent Agenda

1. City Council Items Affecting Water

No items removed.

Commissioner A. Schiffrin moved the consent agenda. Commissioner L. Wilshusen seconded

VOICE VOTE: MOTION CARRIED

AYES: D. Baskin, G. Mead, A. Schiffrin, D. Schwarm, D. Stearns, and L. Wilshusen.

NOES: None.

ABSENT: W. Wadlow

Items Removed from the Consent Agenda

No items removed.

General Business

1. Water Conservation Master Plan

Presentation provided by Assistant Engineer, S. O'Hara and Lisa Maddaus. Assistant Engineer, S. O'Hara, Water Director, R. Menard, as well as Bill and Lisa Maddaus of Maddaus Water Management Inc. responded to Commission questions.

Summary of Commission Comments:

- Question was asked regarding customer cost in reference to the water conservation rebate program.
- Comment was made concerning the cost benefit ratio of the water conservation rebate program.
- Question was asked regarding which items were currently been done now with the drought response.
- Comment was made regarding the timeframe of placing Program C on hold until the drought ends and a water supply & rate study is completed.
- Comment was made on the main expensive components of Program C, such as the residential/multi-family C2 landscape conversion or turf removal and the hot water on demand in new developments and the effect on affordable housing.
- Question was asked concerning what costs the City would pay for and what customers would pay for.

Public Comment:

Oral comments made by P. Pethoe, D. Speltz, P. Gratz, C. Curven, S. McGilvray, C. Bobbe, S. Holt, and B. Walker.

Summary of Commission Comments:

- Question was asked regarding rotating sprinkler nozzle rebates; if it was equivalent to drip systems and if it could logistically be included in the program and still work the same way.
- Comment was made that the City's education program, in terms of what information and suggestions are given to customers, will be much broader than what the incentive program is.

Commissioner Wilshusen moved staff's recommendation that the Water Commission 1) review and approve amended goal/objective language, 2) review and approve outline of City Council Technical Memorandum, with a modification to include a monitoring program 3) receive information on budget, staffing, water savings and implementation plan for Program B and C for comparison, 4) affirm or modify Program C as preferred long-range water conservation program, 5) recommend preferred program to City Council for public input and adoption. Commissioner D. Baskin seconded.

Summary of Discussion:

- Question was asked if a lot of measures in Program C are going to be delayed that would have otherwise have been implemented in Fiscal Year 2015, 2016, or 2017.
- Clarification was asked regarding why Water Commission is recommending Program A, if program A is what is currently in place.
- Comment was made that it would be helpful for a better understanding to see the model.
- Comment was made to bring back a finished Master Plan Technical Memorandum based on the tonight's approved recommendation.

Friendly amendment to the motion that Staff take the agreed upon approach and work with it in developing the tech memo. When the Tech memo is completed bring back the entire package including the technical memorandum for Water Commissioners to review and approve before it goes to council.

Summary of Discussion

- Question was asked regarding the summary of active elements of Program C, under the commercial measures; customized top users incentive programs, school building retrofits, and public restroom retrofit and if those are the types of measure that are going to be delayed.
- Comment made by Commissioner A.Schiffrin that he will be voting no on the motion due to his belief that the Commission is moving in the wrong direction, that the Commission should not spend time on the Master Plan because of the revisions that will come once WSAC reviews it and that whatever is decided at this evenings meeting will be viewed as not enough.
- Comment was made disagreeing with Commissioner A. Schiffrin, regarding whether City Council has created some confusion regarding the roles of the respective Water advisory bodies and how both are expected to function as they move forward but City Council has not told The Water Commission to stop doing their job.
- Comment was made that it is important that the Water Commission focus on drought enhancement measures and that City Council made it very clear at a past meeting that the Water Department and Water Commission were to come forth with recommendations on things that could be implemented soon during this drought that realize water savings.

Call for the question.

VOICE VOTE: MOTION CARRIED

AYES: D. Baskin, D. Stearns, L. Wilshusen and D. Schwarm.

NOES: A. Schiffrin.

ABSTAINED: G. Mead, due to absence from April 7th meeting.

ABSENT: W. Wadlow

2. Operating Budget and Financial Overview

Commissioner A. Schiffrin moved that this item be tabled until the next month's meeting due to three Commissioners not having reviewed and/or received the item via email.

Commissioner L. Wilshusen seconded.

VOICE VOTE: MOTION CARRIED

AYES: D. Baskin, G. Mead, A. Schiffrin, D. Schwarm, D. Stearns, and L. Wilshusen

NOES: None.

ABSENT: W. Wadlow

3. WSAC Update

Water Commissioners; D. Stearns and D. Baskin provided an oral report.

Public Comment:

Oral comments made by S. Holt.

Subcommittee/Advisory Body Oral Reports No items.

Director's Oral Report No action shall be taken on this item.

1. Monthly Status of Water Supply

Documents for Future Meetings No action shall be taken on this item.

1. None

Items Initiated by Members for Future Agendas

Adjournment The next meeting of the Water Commission is scheduled for June 2, 2014 at 9:19 p.m. in Council Chambers.

Respectfully submitted,

Gloria

Rudometkin

Digitally signed by Gloria Rudometkin
DN: c=US, o=City of Santa Cruz, ou=Water,
email=grudometkin@cityofsantacruz.com, cn=US
Date: 2014.02.10 09:12:05 -0800

Staff



**WATER COMMISSION
REPORT**

DATE: May 27, 2014
TO: Water Commission
FROM: Water Director
SUBJECT: City Council Items Affecting Water

City Council Meeting of May 13, 2014:

Graham Hill Water Treatment Plant Filter Rehabilitation and Upgrades Project – Approval of Drawings and Specifications, and Authorization to Advertise for Bids and Award Contract (WT)

Motion carried to approve the drawings, specifications and contract documents for the Graham Hill Water Treatment Plant Filter Rehabilitation and Upgrades Project. The City Manager is hereby authorized and directed to execute the contract as authorized by Resolution No. NS-27,563 in a form approved by the City Attorney.

Graham Hill Water Treatment Plant Filter Rehabilitation and Upgrades Project Design and Construction Support Services – Contract Amendment No. 2 (WT)

Motion carried to ratify Contract Amendment No. 2 with Kennedy/Jenks Consultants (San Francisco, CA) in the amount of \$58,862 for additional design services and other project elements for the Graham Water Hill Treatment Plant Filter Rehabilitation and Upgrades. to approve Contract Amendment No. 2 with Hatch Mott MacDonald (Pleasanton, CA) for design and construction support services.

City Council Meeting of May 27, 2014:

University Reservoir No. 2 Rehabilitation Project – Notice of Completion (WT)

Motion to accept the work of Crosno Construction, Inc., (Arroyo Grande, CA) as complete per the plans and specifications and authorize the filing of a Notice of Completion for the University Reservoir No. 2 Rehabilitation Project.

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WATER DEPARTMENT MEMORANDUM

DATE: May 27, 2014

TO: Water Commission

FROM: Nicole B. Dennis
Principal Management Analyst

SUBJECT: FY 2015 Operating Budget

RECOMMENDATION: Receive Information the FY 2015 Operating Budget.

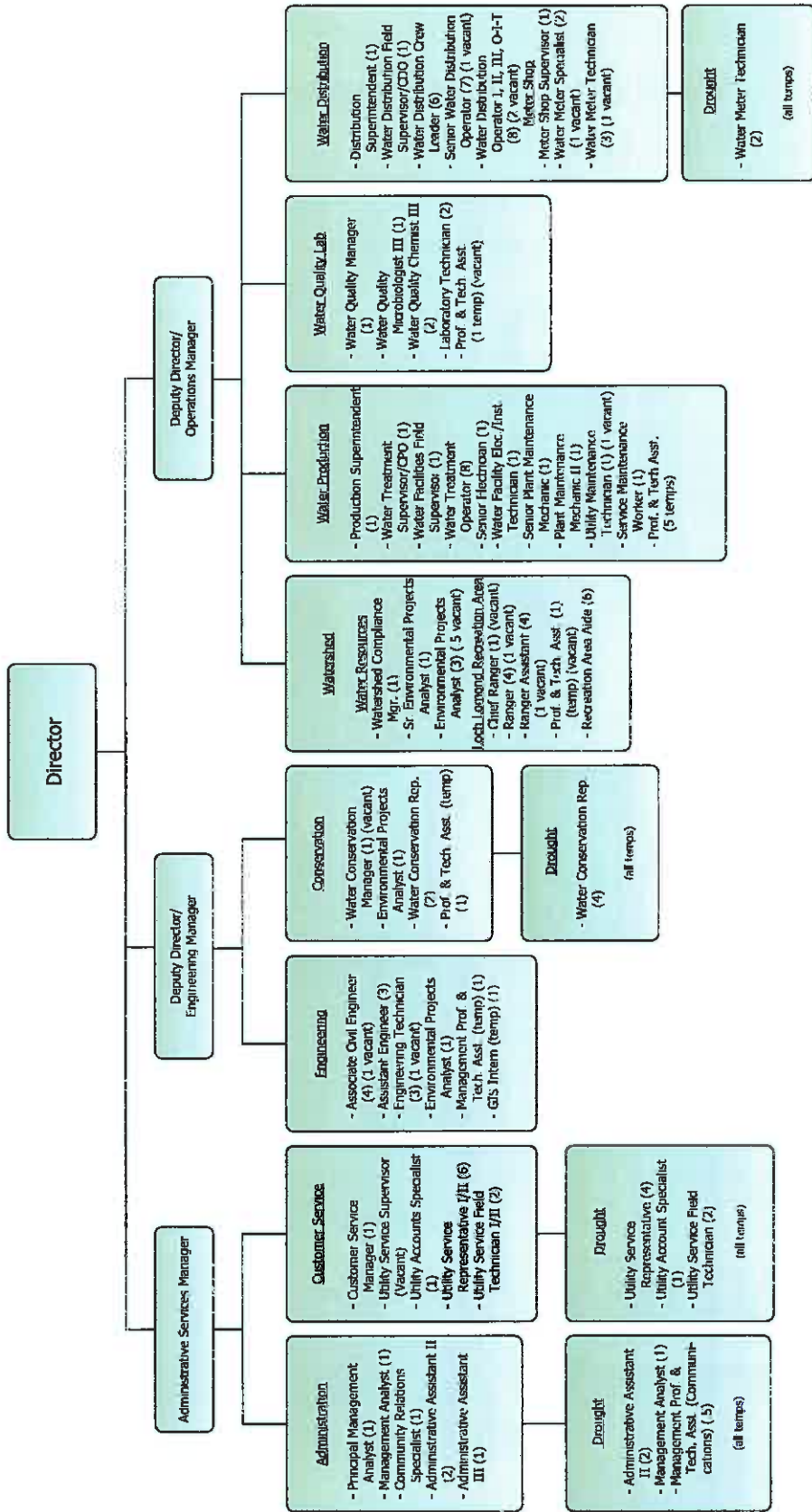
Attached is the FY 2015 Operating Budget as it appears in the City's Recommended Budget document. The Water Department's FY 2015 proposed operating budget was heard before the City Council on the evening of May 27, 2014 and will be adopted by the City Council in June 2014.

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Water Department



Water Department



DEPARTMENT DESCRIPTION

The mission of the Water Department is to assure public health and safety by providing a clean, adequate and reliable supply of water. We strive to serve the community in a courteous, efficient, cost effective and environmentally sustainable manner.

We are passionate about our work, and try to instill our values of integrity, innovation, objectivity, professionalism, teamwork and transparency in everything we do. We collect water, move it, store it, treat it, distribute it, track how much is used and bill our customers for their use. We're at the end of the phone when they call with questions and we're smiling faces when they visit the department. We educate our customers about how to use less water and provide them the tools to do so. Our work includes the maintenance and operation of Loch Lomond Recreation area, as well as the protection of the Majors, Liddell, Newell Creek, Zayante and Laguna watersheds. We take pride in meeting the diverse needs of the broad region we serve.

FY 2014 ACCOMPLISHMENTS

For almost 100 years the Water Department has been standing ready to serve the community. In current times, that translates into delivering 10 million gallons of water per day to a population of about 100,000 people through roughly 300 miles of water pipelines while striving to meet the environmental needs.

Below are a few of the accomplishments that really stood out this year:

- Completed the Water Use Baseline Study and the Long Range Water Conservation Master Plan;
- Planned and implemented water use restrictions including residential rationing, significant cuts in large landscape irrigation and extensive work with commercial customers to achieve necessary demand reductions due to the unprecedented 2014 water year drought;
- As part of the drought response, organized and implemented a major community outreach and education program involving numerous community presentations, participation in community events, distributed hundreds of water saving devices, and distribution of thousands of pieces of educational materials;
- Played an active role in supporting the City's Water Supply Advisory Committee process initiated to explore and address the City's future water supply needs and options for addressing those needs;
- Completed Bay Street Reservoir Tank 1, and began construction on Tank 2 construction. Each tank is capable of holding 6 million gallons of treated drinking water;
- Completed the rehabilitation of three additional 1 million gallon water storage tanks;
- Replaced several thousand feet of new water pipelines within the service area; and,
- Completed the smooth transition to new management and leadership in several key roles following the retirement or departure of long term and valued employees.

CITY COUNCIL STRATEGIC PLAN 3-YEAR GOALS:

1. Enhance Environmental Sustainability and Resources
2. Enhance Community Safety
3. Promote Economic Vitality and Retain and Attract Businesses and Jobs
4. Maintain Fiscal Stability and Sustainability
5. Improve and Maintain Infrastructure and Facilities
6. Enhance Community Engagement and Outreach

FY 2015 GOALS

The short list of goals for FY 2015 presented below does not do justice to the work of our dedicated staff of 100 working in 9 different sections through the City. Along with delivering safe, high quality water to our thousands of customers every day, key goals for FY 2015 include:

- Continue implementing water demand reductions needed to respond to the 2014 water year of unprecedented drought and plan for continuing restrictions in the event of continuing drought in water year 2015.
- Support and participate in the work of the City's Water Supply Advisory Committee.
- Create a long range infrastructure rehabilitation and replacement plan using a risk based approach to prioritizing projects.
- Use the long range infrastructure rehabilitation and replacement plan as an input to a 5 to 10 year financial plan that includes financial and reserve policies, a financing strategy that included both debt and pay as you go financing, that identifies and evaluates a range of rate structures and develops recommendations on financial and reserve policies, financing strategy, rate design and rate increases.

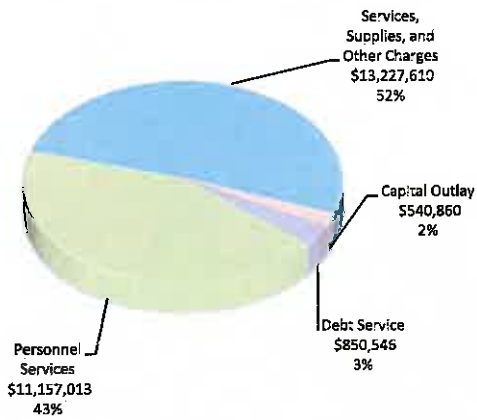
CITY COUNCIL STRATEGIC PLAN 3-YEAR GOALS:

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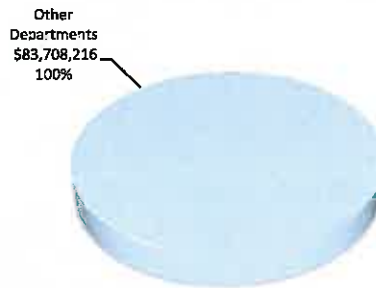
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Water Department Spotlight

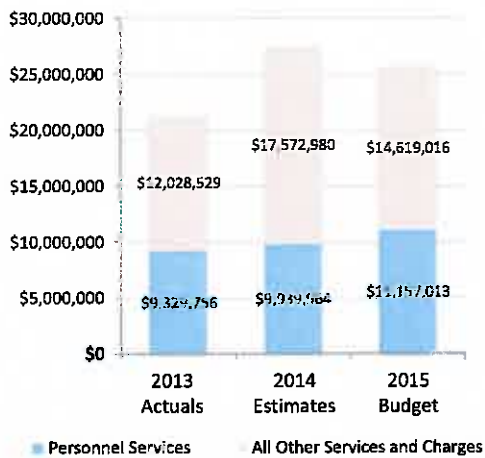
FY 2015 BUDGET \$25,776,029



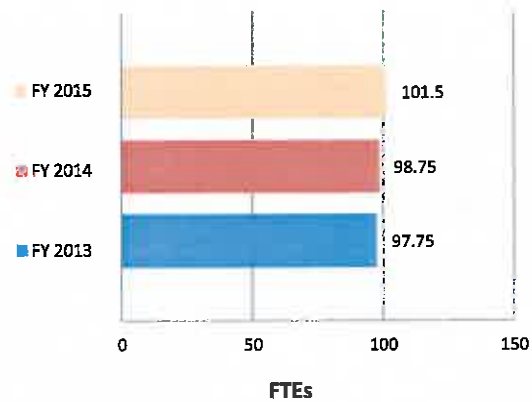
PERCENTAGE OF PRIMARY GENERAL FUND BUDGET



HISTORICAL EXPENDITURES



PERSONNEL AUTHORIZED



DEPARTMENT SUMMARY

	Fiscal Year* 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget	
		Adopted Budget	Amended* Budget	Estimated Actual		
EXPENDITURES BY CHARACTER:						
Personnel Services	9,329,756	9,977,719	10,143,934	9,939,964	11,157,013	
Services, Supplies, and Other Charges	10,818,466	14,224,290	16,383,440	15,238,767	13,227,610	
Capital Outlay	357,522	967,000	1,511,642	1,482,049	540,860	
Debt Service	852,540	852,164	852,164	852,164	850,546	
Total Expenditures	21,358,285	26,021,173	28,891,180	27,512,944	25,776,029	
EXPENDITURES BY ACTIVITY:						
Water Administration	7101	3,703,327	4,026,270	3,980,550	3,790,413	4,234,919
Water Engineering	7102	2,491,236	3,374,311	4,827,102	4,642,388	2,354,372
Water Customer Services	7103	1,522,324	1,306,868	1,292,538	1,214,557	1,341,660
Water Conservation	7104	653,723	881,219	944,839	846,796	932,355
Water Resources	7105	1,077,372	1,641,757	1,977,007	1,618,752	1,454,705
Water Production	7106	4,910,629	6,261,227	6,271,625	6,030,526	6,053,873
Water Quality	7107	788,553	858,425	863,276	882,177	920,627
Water Distribution	7108	4,509,541	4,842,324	5,169,315	5,341,742	4,790,342
Water Recreation	7109	849,039	1,142,972	1,152,472	829,959	1,161,467
Meter Shop	7118	1	833,636	908,636	811,814	1,347,808
Water Debt Service	7140	852,540	852,164	852,164	852,164	850,546
Drought Response 2014	7199	-	-	651,656	651,656	333,355
Subtotal Other Funds		21,358,285	26,021,173	28,891,180	27,512,944	25,776,029
Total Expenditures		21,358,285	26,021,173	28,891,180	27,512,944	25,776,029
RESOURCES BY FUND						
Water	711	24,831,836	23,224,175	23,224,175	24,466,773	42,729,935
Water System Development Fees Fund	715	644,162	600,000	600,000	440,000	600,000
Total Resources		25,475,997	23,824,175	23,824,175	24,906,773	43,329,935
		FY 2013			FY 2014	FY 2015
TOTAL AUTHORIZED PERSONNEL:		97.75			98.75	101.50

*Sums may have discrepancies due to rounding

Water Administration

Activity Number: 7101
 Fund(s): Water (711)
 Department: Water

ACTIVITY SUMMARY

Activity Description:

The Water Administration section coordinates and manages department business by focusing on the following operational areas: human resources, finances, public relations, safety, and regulatory compliance. Administration is responsible for maintaining a rate structure that reflects cost of service, funds the department's capital improvement program, and provides adequate reserves. This section also facilitates the communication and interaction with the Water Commission, City Council, City Manager's Office and regulatory agencies.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	719,698	808,225	808,225	821,439	1,078,641
Services, Supplies, and Other Charges	2,977,991	3,068,045	3,172,325	2,968,974	3,156,278
Capital Outlay	5,638	150,000	-	-	-
Total Expenditures	3,703,327	4,026,270	3,980,550	3,790,413	4,234,919

*Sums may have discrepancies due to rounding

Water Engineering

ACTIVITY SUMMARY

Activity Number: 7102
 Fund(s): Water (711)
 Department: Water

Activity Description:

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 records of facilities, installations and maps; and oversees the Backflow Prevention Program.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	1,399,745	1,469,152	1,469,152	1,627,678	1,625,959
Services, Supplies, and Other Charges	1,091,491	1,815,159	3,267,950	2,944,430	728,413
Capital Outlay	-	90,000	90,000	70,280	-
Total Expenditures	2,491,236	3,374,311	4,827,102	4,642,388	2,354,372
ACTIVITY RESOURCES:					
Grants	59,492	100,000	100,000	-	-
Total Resources	59,492	100,000	100,000	-	-

*Sums may have discrepancies due to rounding

Water Customer Services

Activity Number: 7103
 Fund(s): Water (711)
 Department: Water

ACTIVITY SUMMARY

Activity Description:

The Customer Services 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, and only water services to the unincorporated surrounding areas. This section manages utility accounts and billing, processes opening and closing of accounts; and provides service in response to requests from the customers.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	874,939	885,165	885,165	861,244	927,842
Services, Supplies, and Other Charges	628,839	394,703	397,403	343,342	403,818
Capital Outlay	18,545	27,000	9,970	9,971	10,000
Total Expenditures	1,522,324	1,306,868	1,292,538	1,214,557	1,341,660
ACTIVITY RESOURCES:					
Charges for Services	643,959	578,375	578,375	643,959	641,935
Total Resources	643,959	578,375	578,375	643,959	641,935

*Sums may have discrepancies due to rounding

Water Conservation

ACTIVITY SUMMARY

Activity Number: 7104
 Fund(s): Water (711)
 Department: Water

Activity Description:

The Water Conservation section is responsible for promoting efficient water use and for implementing management practices that reduce customer demand for water, including public information and education activities, water budgets for large landscape customers, plumbing fixture replacement and appliance rebate programs, technical assistance, administration of landscape, and water waste regulations.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	293,168	362,091	362,091	243,143	369,767
Services, Supplies, and Other Charges	360,555	519,128	582,748	603,653	562,588
Total Expenditures	653,723	881,219	944,839	846,796	932,355
ACTIVITY RESOURCES:					
Rents, & Misc Revenues	10,758	10,000	10,000	415	-
Total Resources	10,758	10,000	10,000	415	-

*Sums may have discrepancies due to rounding

Water Resources

Activity Number: 7105
 Fund(s): Water (711)
 Department: Water

ACTIVITY SUMMARY

Activity Description:

The Water Resources Management section is responsible for the 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.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	410,107	452,314	452,314	464,466	508,438
Services, Supplies, and Other Charges	667,265	1,189,443	1,524,693	1,154,237	946,267
Capital Outlay	-	-	-	49	-
Total Expenditures	1,077,372	1,641,757	1,977,007	1,618,752	1,454,705

*Sums may have discrepancies due to rounding

Water Production

ACTIVITY SUMMARY

Activity Number: 7106
 Fund(s): Water (711)
 Department: Water

Activity Description:

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.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	2,068,648	2,146,317	2,146,317	2,123,623	2,320,054
Services, Supplies, and Other Charges	2,787,259	3,952,910	3,910,808	3,750,289	3,554,319
Capital Outlay	54,722	162,000	214,500	156,614	179,500
Total Expenditures	4,910,629	6,261,227	6,271,625	6,030,526	6,053,873

Water Quality

Activity Number: 7107
 Fund(s): Water (711)
 Department: Water

ACTIVITY SUMMARY

Activity Description:

The Water Quality Control 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.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	582,339	600,419	600,419	625,792	640,661
Services, Supplies, and Other Charges	176,905	245,006	235,006	228,534	261,966
Capital Outlay	29,309	13,000	27,851	27,851	18,000
Total Expenditures	788,553	858,425	863,276	882,177	920,627

*Sums may have discrepancies due to rounding

Water Distribution

ACTIVITY SUMMARY

Activity Number: 7108
 Fund(s): Water (711)
 Department: Water

Activity Description:

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.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	2,372,914	2,298,274	2,298,274	2,169,394	2,385,021
Services, Supplies, and Other Charges	1,887,319	2,066,050	2,066,050	2,319,357	2,120,321
Capital Outlay	249,308	478,000	804,991	852,991	285,000
Total Expenditures	4,509,541	4,842,324	5,169,315	5,341,742	4,790,342

*Sums may have discrepancies due to rounding

Water Recreation

Activity Number: 7109
 Fund(s): Water (711)
 Department: Water

ACTIVITY SUMMARY

Activity Description:

The Water Recreation Facility section operates and maintains Loch Lomond Recreation Area. The section is also responsible for patrolling watershed property and protecting source water quality.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	608,197	644,323	644,323	521,377	682,288
Services, Supplies, and Other Charges	240,842	451,649	461,149	261,582	479,179
Capital Outlay	-	47,000	47,000	47,000	-
Total Expenditures	849,039	1,142,972	1,152,472	829,959	1,161,467
ACTIVITY RESOURCES:					
Licenses and Permits	1,417	1,200	1,200	-	600
Rents, & Misc Revenues	183,562	170,000	170,000	79,246	85,000
Total Resources	184,979	171,200	171,200	79,246	85,600

*Sums may have discrepancies due to rounding

Meter Shop

ACTIVITY SUMMARY

Activity Number: 7118

Fund(s): Water (711)

Department: Water

Activity Description:

The Meter Shop section is responsible for reading, inspecting, installing, maintaining, and replacing water meters in the service area that covers the City of Santa Cruz and the unincorporated surrounding areas.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	-	311,439	311,439	315,593	440,127
Services, Supplies, and Other Charges	1	522,197	522,197	421,258	859,321
Capital Outlay	-	-	75,000	74,963	48,360
Total Expenditures	1	833,636	908,636	811,814	1,347,808

*Sums may have discrepancies due to rounding

Water Debt Service

Activity Number: 7140
 Fund(s): Water (711)
 Department: Water

ACTIVITY SUMMARY

Activity Description:

Funds principal and interest payments on issued debt.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Debt Service	852,540	852,164	852,164	852,164	850,546
Total Expenditures	852,540	852,164	852,164	852,164	850,546

*Sums may have discrepancies due to rounding

Drought Response 2014

ACTIVITY SUMMARY

Activity Number: 7199
 Fund(s): Water (711)
 Department: Water

Activity Description:

This activity accounts for expenses and revenues beyond the department's base operating budget related to Stage 3 (or higher) Water Shortage Emergency incurred in calendar year 2014. Tracking of such expenses and revenues will begin with the Stage 3 Water Shortage Emergency declared by City Council on February 25, 2014 and continuing until such emergency is reduced to Stage 2 or lower.

	Fiscal Year 2013 Actuals	Fiscal Year 2014			Fiscal Year 2015 Proposed Budget
		Adopted Budget	Amended Budget	Estimated Actual	
EXPENDITURES BY ACTIVITY:					
Personnel Services	-	-	166,215	166,215	178,215
Services, Supplies, and Other Charges	-	-	243,111	243,111	155,140
Capital Outlay	-	-	242,330	242,330	-
Total Expenditures	-	-	651,656	651,656	333,355

*Sums may have discrepancies due to rounding

Water

Capital Projects

Fund	Project Number	Project Title	Fiscal Year 2014 Estimated	Fiscal Year 2015 Proposed Budget
Water Fund				
711	c700313	Bay Street Reservoir Reconstruction	6,103,381	3,280,000
711	c701003	Beltz Well #4 Replacement with #12	3,449,291	-
711	c701504	Gravity Trunk Main Valve Replacement	-	150,000
711	c701301	Loch Lomond Facilities Improvements	85,000	100,000
711	c709835	North Coast System Rehabilitation	804,164	645,000
711	c701505	Recoat University Reservoir No. 4	-	95,000
711	c701506	Recoat University Reservoir No. 5	-	110,000
711	c701507	Water Main Replacements - Distribution	-	300,000
711	c700002	Water Main Replacements -City Engineering	1,066,298	500,000
711	c700003	Water Main Replacements -Outside Agency	385,881	-
711	c700305	Water Supply Project	1,479,165	-
711	c701402	Water Supply Reliability	490,000	-
711	c701403	Water Supply Reliability	210,000	-
711	c709833	Water Transmission System Improvements	400,000	400,000
711	c700025	Water Treatment Upgrades	124,881	-
711	c701303	WTP Filter Rehabilitation and Upgrades	1,647,191	3,538,000
711	c701501	WTP Filter Water Tank	-	200,000
711	c701401	WTP Hypochlorite Generation	75,000	-
711	c701503	WTP UV System - Pasatiempo	-	40,000
Total Water Fund			16,320,252	9,358,000
Water System Development Fund				
715	c700027	Bay Street Reservoir Reconstruction	1,434,608	820,000
715	c700004	Water Main Replacements -Customer Initiated	50,000	50,000
715	c700016	Water Supply Project	1,080,574	-
715	c700017	Water Transmission System Improvements	100,000	100,000
Total Water System Development Fund			2,665,182	970,000
Total Water Projects			18,985,434	10,328,000



WATER DEPARTMENT MEMORANDUM

DATE: May 27, 2014

TO: Water Commission

FROM: Nicole B. Dennis
Principal Management Analyst

SUBJECT: Transfer funds from the rate Stabilization Fund to the Water Department's Enterprise Fund

RECOMMENDATION: Recommend transfer of funds from the Water Rate Stabilization Reserve Fund to the Water Enterprise Fund to the City Council as required by Council Policy 34.4.

Council Policy 34.4 (attached) requires the Water Commission's recommendation to transfer funds from Fund 713, the Water Rate Stabilization Fund to Fund 711, the Water Enterprise Fund:

"Use of the Water Rate Stabilization Fund shall be authorized by the City Council after consideration of a recommendation from the Water Commission and a written request from the City Manager based upon one, or a combination of, the following conditions:

- Increased Capital Improvement Program (CIP) or capital outlay expenditures due to an extraordinary non-recurring need or circumstance.
- A fluctuation in water consumption revenues creating an unanticipated shortfall.
- Catastrophic losses as the result of a natural disaster."

Due to the financial impacts of the drought, staff is recommending a portion of the \$2.4 million be transferred in fiscal year 2014 to cover revenue losses. The total amount transferred will be determined at a later date after working with the City Finance Department to determine the correct amount before seeking City Council approval. Staff anticipates the balance of the remaining funds be transferred in FY 2015 to cover continued revenue losses. Release of the Water Rate Stabilization Reserve Fund now will maximize the department's flexibility in dealing with the financial impacts of the current drought and in developing a comprehensive multi-year strategy for addressing these impacts.

In addition, staff recommended that the portion of the Council Policy concerning the replenishment of the Water Rate Stabilization Reserve Fund be suspended. The policy specifically states:

- Should it be necessary to deplete the Water Rate Stabilization Reserve Fund for any of the allowable reasons, the accounting and record keeping procedures will revert to those set forth for restricted revenues, and collected in the Water Rate Stabilization Reserve Fund until the fund has once again reached \$2.3 million.

While the Water Rate Stabilization Fund falls below \$2.3 million, an automatic bill charge of \$0.10/CCF is typically enacted. Staff will request the City Council hold this portion of the policy in abeyance while the Department continues to work on rate and reserve policies.

POLICY TITLE: WATER RATE STABILIZATION FUND — MANAGEMENT AND USE

POLICY STATEMENT:

On January 12, 1993, City Council approved the creation of the “Water Rate Stabilization Surcharge”. This surcharge consists of a \$0.10 charge per each CCF (100 cubic feet) of non-lifeline water sold in the service area. The Rate Stabilization Reserve was designed to shield the Water Fund from the financial effects of extraordinary circumstances.

The general rules guiding the management and use of the water rate stabilization fund shall be as prescribed below:

- The accounting and record keeping of the Rate Stabilization Surcharge fund shall be in accordance with those procedures set forth for “restricted revenues” until such time as \$2.3 million has accumulated in the Rate Stabilization Reserve Fund.
- Use of the Water Rate Stabilization Fund shall be authorized by the City Council after consideration of a recommendation from the Water Commission and a written request from the City Manager based upon one, or a combination of, the following conditions:
 - ◆ Increased Capital Improvement Program (CIP) or capital outlay expenditures due to an extraordinary non-recurring need or circumstance.
 - ◆ A fluctuation in water consumption revenues creating an unanticipated shortfall.
 - ◆ Catastrophic losses as the result of a natural disaster.
- Once the Rate Stabilization Fund has reached \$2.3 million, the accounting and record keeping of the Rate Stabilization Surcharge fund shall be in accordance with those procedures set forth for unrestricted revenues and will be collected in the Water Fund.

Should it be necessary to deplete the Water Rate Stabilization Reserve Fund for any of the allowable reasons, the accounting and record keeping procedures will revert to those set forth for restricted revenues, and collected in the Water Rate Stabilization Reserve Fund until the fund has once again reached \$2.3 million.

AUTHORIZATION: Resolution No. NS-24,013 and
Council Policy Manual Update of November 17, 1998

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WATER DEPARTMENT MEMORANDUM

DATE: May 23, 2014

TO: Water Commission

FROM: Rosemary Menard

SUBJECT: Recycled Water Transfer with Scotts Valley Water District and Pasatiempo Golf Course – Status Update

RECOMMENDATION: Receive information on the recycled water transfer project between Scotts Valley Water District and Pasatiempo Golf Course.

The City of Scotts Valley provides sanitary sewer collection and wastewater treatment service to its citizens. The City of Scotts Valley Water Recycling Facility (WRF) has the capacity to treat 1.5 million gallons per day (MGD) with a current average daily flow rate of approximately 0.8MGD. The WRF treats to a “secondary level” water quality standard and discharges the treated effluent to a 12” outfall pipeline that combines with the City of Santa Cruz’ ocean outfall prior to discharge to the Monterey Bay. The WRF also has the capability to treat up to 1MGD of its secondary effluent to tertiary standards.

The Scotts Valley Water District (SVWD) provides water service to this area. SVWD’s source of potable water is groundwater from beneath its service area. In addition they purchase up to 1MGD of tertiary water from the City of Scotts Valley and in turn sell it as “unrestricted” irrigation water to its customers to offset irrigation use with potable water and reduce the use of the groundwater basin. This has been a very successful and beneficial arrangement; while SVWD does not currently resell the full 1MGD, they have an agreement entitling them to it and expect to have enough customers in the future to do so.

The Pasatiempo Golf Course (PGC) is a customer of the City of Santa Cruz and purchases between 40 and 60 million gallons a year for irrigation and domestic uses. PGC, the City of Scotts Valley, the Santa Cruz Water Department (SCWD), and Scotts Valley Water District have been collaborating with each other for several years on a water exchange project that would put to highest and best use each water source as follows.

- The City of Scotts Valley would continue to treat wastewater to both secondary and tertiary standards.
- SVWD would continue to purchase up to the maximum available of tertiary treated wastewater.

- PGC would purchase tertiary treated wastewater from SVWD for unrestricted irrigation use.
- SCWD would sell a similar quantity of potable to SVWD.

This concept requires

- A 500,000 gallon water storage tank at PGC;
- Approval for dual use of the 12” outfall pipe to facilitate transfer of secondary effluent to the ocean outfall and tertiary effluent to PGC; and,
- Potential installation and use of groundwater wells by PGC on their grounds to expand their portfolio of water sources.

Outstanding issues related to this concept include:

- Confirm final approval by regulatory agencies on the dual use of the ocean outfall pipe; and,
- Agreement(s) between the SCWD and SVWD on the quantity of potable water to be transferred, location of the physical components to do so, water rights, time and duration of use, and ability of water to be transferred back to the SCWD.

Due to the Stage 3 Water Emergency, PGC is currently on a water budget consistent with the Water Shortage Contingency Plan and must reduce their reliance on the SCWD by 49%.

Because the concept described above has not yet been completed, and in an effort to maintain a higher level of irrigation at PGC than allowed for during the drought, PGC is pursuing a different near term solution that would be less expensive, has the potential to be a long term solution, and may eliminate the need to transfer potable water from the SCWD to SVWD: PGC would take a side-stream of the City of Scotts Valley’s secondary effluent at the point the 12” outfall pipe passes PGC for use as “restricted” irrigation.

According to PGC, while they continue to pursue this concept, they don’t expect to have any new water available to them until spring 2015 at the earliest. As a long term solution PGC and the City of Scotts Valley would need to enter into a long term recycled water sale/purchase agreement which would include sale price and seniority over effluent rights (or lack thereof).

Gloria Rudometkin

From: Rosemary Menard
Sent: Thursday, May 01, 2014 3:10 PM
To: Gloria Rudometkin
Subject: FW: Mandatory water rationing begins today

Can we include this in the Water Commission packet for 6/2?

From: Donna Blitzer [<mailto:dblitzer@ucsc.edu>]
Sent: Thursday, May 01, 2014 2:30 PM
To: Lynn Robinson; Don Lane; Cynthia Mathews; Hilary Bryant; David Terrazas; Pamela Comstock; Micah Posner; Martin Bernal; Rosemary Menard; Toby Goddard
Subject: Fwd: Mandatory water rationing begins today

Hello,

I thought you would like to see Chancellor Blumenthal's campus wide message that was sent today to remind everyone about the mandatory water rationing and provide information on ways to reduce consumption on campus.

Best,
Donna

----- Original Message -----

Subject: Mandatory water rationing begins today
Date: Thu, 1 May 2014 10:31:42 -0700
From: Chancellor's Office <chancellor@ucsc.edu>
To: (UCSC Community)

May 1, 2014

To: UCSC Community
From: Chancellor George Blumenthal
Re: Mandatory water rationing begins today

When I last wrote about Santa Cruz's water emergency, I was [sharing information](#) about the City Council's call in February for a voluntary 20 percent reduction in water usage. I am now writing to make sure that you know that — effective today — the city's water rationing program is mandatory and the overall reduction goal has climbed to 25 percent.

Throughout the city's water service area, residents are reducing and monitoring their water use in order to comply with this mandate. Faced with a similar reduction of approximately 25 percent, the campus is doing the same.

For the past several months, an on-campus working group has met regularly to implement emergency water-reduction strategies and monitor compliance through detailed reporting. Our residential staff members have distributed educational materials about the need to conserve, 5-minute shower timers, and other water-reduction aids.

Our students are at the forefront of many of these water-conservation activities. The Student Environmental Center has launched the "Drop Your Own Drip" campaign, which includes a friendly competition among colleges and residential halls to see who can save the most water.

There are a number of ways you can reduce your own consumption. To assist you, a [special campus web site](#) has been created that includes water-conservation tips, information about related campus activities, and other resources.

Longer term, I have charged a new task force with identifying water-management practices and new infrastructure that will support the campus's and UC's water sustainability goals. I am grateful for the work that members of the Water Conservation Task Force, including co-chairs Brent Haddad, professor of environmental studies and technology management, and Sarah Latham, vice chancellor for business and administrative services, will do in support of our long-term goals.

However, that work will not address the current water emergency. Meeting that challenge requires an immediate commitment from each and every one of us. Please do your part now to reduce demand on the city's water system.

Thank you very much for your help.



WATER DEPARTMENT MEMORANDUM

DATE: May 8, 2014
TO: Water Commission
FROM: Nicole B. Dennis
Principal Management Analyst
SUBJECT: Abstention

RECOMMENDATION: Receive Information regarding Abstentions

I need to clarify incorrect information given to members of the Water Commission regarding abstentions. At the May 5, 2014 Commission meeting, when asked by Chairperson David Baskin if Commissioners could abstain from voting on items, I answered in the affirmative. This was based on my understanding of the Commission's Bylaws and the lack of a prohibition against abstaining.

After performing additional research, we have now learned that, in fact, **neither Water Commissions nor City Council members are allowed to abstain on any item before them.** Further clarification follows:

According to Section 607 of the City Charter:

“...All members present at any meeting must vote unless disqualified, in which case the disqualification shall be publically declared and a record thereof made. No member may abstain from voting on any item, except on the approval of the minutes, when that member was absent¹.”

Furthermore, an absence does not qualify as a disqualification. It is incumbent on Water Commissioners to rehabilitate themselves by listening to the audio files of the meeting that was missed. Water Commissioners who were absent at a prior meeting must also state that he or she reviewed the audio files and is able to vote on the minutes due to absence. If for some reason the Water Commissioner did not rehabilitate himself or herself by listening to the audio file then the approval of the minutes must be moved to the next meeting until that person has rehabilitated themselves and can vote.

If any member has a disqualifying interest on a particular matter he/she will do the following.

- 1) “Publicly identify the financial interest that gives rise to the conflict of

interest or potential conflict of interest in detail sufficient to be understood by the public, except that disclosure of the exact street address of a residence is not required;

- 2) Recuse himself or herself from discussing and voting on the matter, or otherwise acting in violation of government code Section 87100;
- 3) Leave the room until after the discussion, vote, and any other disposition of the matter is concluded unless the matter has been placed on the portion of the agenda reserved for uncontested matters
- 4) Notwithstanding paragraph 3, a public official may speak on the issue during the time that the general public speaks on the issue.ⁱⁱ

If there are any questions regarding conflicts of interest it will be referred to the City Attorney.

Concerning voice vote, “all questions shall be resolved by voice vote. Each member shall vote “Aye” or “No” and the vote shall be entered into the minutes, noting the vote of each member. A member may state the reasons for his or her vote, which reasons shall also be entered into the minutes of the meeting. All members including the Chair shall vote on all matters, except when s/he has a disqualifying interest.ⁱⁱⁱ”

I apologize for any confusion I inadvertently caused.

ⁱ Water Commission, Bylaws, Article XI - Voting

ⁱⁱ Water Commission, Bylaws, Article XI - Voting

ⁱⁱⁱ Water Commission, Bylaws, Article XI - Voting



WATER DEPARTMENT MEMORANDUM

DATE: May 14, 2014
TO: Water Commission
FROM: Water Director
SUBJECT: Water Commission Minutes

RECOMMENDATION: Receive information.

In light of recent requests to include answers to the questions asked by Water Commissioners to the minutes as well as uploading the audio files of the meeting and making them available to Water Commissioners, the structure of the minutes moving forward will be changing. The Water Department will be adopting the City Council's style of minutes and making audio files available online via the City of Santa Cruz Water Commission website.

This approach will have many benefits; it will allow Water Commissioners to listen to the answers to the questions asked, offer rehabilitation when Water Commissioners are absent, and in general allow members to revisit various items discussed. The minutes will be streamlined in accordance with City Council's version and offer the time constraints of where in the recording the item occurred. If you would like to visit the City Council's website to review the minutes click on the following link: <http://www.cityofsantacruz.com/index.aspx?page=752>

Currently, the minutes will continue to stay as they are. The timeline of when the minutes will be changing is expected to be in September 2014.

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WATER DEPARTMENT MEMORANDUM

DATE: May 27, 2014
TO: Water Commission
FROM: C. Berry, Watershed Compliance Manager
SUBJECT: Fisheries Conservation Status in City Water Supply Watersheds

RECOMMENDATION: That the Commission receive information regarding fisheries conservation with regard to Water operations.

BACKGROUND: The goal of this presentation is to provide details on the biological and legal issues relevant to the Department's ongoing work related to fisheries conservation.

The Department has a long history of working on watershed and fisheries issues. Though this work has more recently been driven by regulations such as the Safe Drinking Water Act, California Fish and Game Code, and Endangered Species Act, the Department has a long history of this kind of work prior to there being a regulatory obligation to do so. Watershed and aquatic ecosystem protection activities have included:

- purchase and management of watershed lands for protection of its drinking water sources,
- facilitation of hatchery-related trapping operations at the Felton Diversion,
- support of regional watershed and fisheries conservation work such as the regional coastal lagoon evaluation and assessment program annual County-led juvenile steelhead monitoring project,
- support for operation of the two USGS stream gaging stations on the San Lorenzo River, and
- North Coast stream gaging and fisheries surveys.

Most recently, the Department has engaged in conservation efforts to specifically evaluate the effects of its operations on fish populations in watersheds that supply water for the City (aka: water supply watersheds, or WSWs). A key focus of this work involves identifying how these populations are limited by other factors, and how the City might best address the challenges that these populations are confronted by.

DISCUSSION : There are number of important considerations regarding local fisheries conservation. Generally speaking, it is important to understand the life history needs of the fish as well as watershed conditions where our operations have an effect on them. Being that the fish species we are primarily concerned with (steelhead and coho) are anadromous (i.e. they return to

freshwater from the ocean to spawn), ocean conditions are also an important consideration. That said, the Department has been primarily concerned with investigating the challenges these fish face in our WSWs, as we have limited opportunity for addressing ocean conditions. Among other things, the following challenges confront these fish locally:

- Sedimentation (i.e. filling) of spawning gravels and rearing pools
- Degraded water quality
- Lack of cover
- Lack of instream large wood
- High stream temperatures
- Predation
- Channel simplification
- Hydromodification (i.e. anthropogenically-induced flow changes)

Recognizing and taking steps to address the needs of aquatic species through fisheries conservation work is very aligned with the environmental ethos of the City of Santa Cruz and the Water Department's customers. It also is important because it informs the City's water supply planning process.

Achieving long term certainty for both fish and for water supply planning requires a better understanding of fisheries conservation needs and a long term commitment to improving conditions for them. We have conducted extensive surveys of our WSWs over the past few years, identified the effects of our operations on these fish as well as other factors that might challenge their conservation, and made significant efforts to improve conditions for them in the short term.

Key outcomes of this work include learning that Laguna Creek has the least impacted habitat and the greatest potential for expeditious and meaningful fishery restoration, once instream flows have been improved. Conversely, the San Lorenzo system has perhaps the most impacted habitat, but also the least potential for any one stakeholder (of which there are many) such as the Water Department to effect positive change.

Currently, water supply and hydrologic modeling, as well as coastal lagoon monitoring have been the primary focus of our work. Drought-response and related interim instream flow goal development and implementation have been significant distractions from reinitiating discussions with regulators on the long term conservation strategy. However, these conditions have also provided a "real world" test of conservation scenarios and operational practicability, and have thereby provided important feedback on any future long-term conservation strategy.

Furthermore, staff has been engaged positively with our regulators on a routine basis as we work through our current drought-related challenges. Finally, while we will have a general understanding of the range of possibility of the effects of any conservation strategy scenario on water supply reliability in the more near term, it is anticipated that we will be formally reinitiating discussions on the long term strategy with our regulators within 6 – 8 months. Staff will report back and seek direction from the Commission when that time comes.



**WATER DEPARTMENT
MEMORANDUM**

DATE: May 27, 2014
TO: Water Commission
FROM: R. Menard, Water Director
SUBJECT: Leadership and Sustainability Initiative

RECOMMENDATION: Receive Report.

The Water Director's recent assessment, the Leadership and Sustainability Initiative (see attached) will be reviewed and discussed with the Water Commission.

LEADERSHIP AND SUSTAINABILITY INITIATIVE
An Assessment of, and Action Plan for, the Santa Cruz Municipal Water Utility

Introduction and Background

Any new leader coming into an organization will take a bit of time to get his or her arms around the issues facing the organization. This assessment is then typically followed by a plan of action to address issues identified.

During my initial few months as Santa Cruz’s Water Director, I met with many leaders from the City and community, with stakeholders, and with water utility staff – all of whom generously shared their perspective on the state of the utility with me. I learned about the sources for our water supply and the challenges we face in sustaining its reliability. I learned about challenges we face in managing the supply to support critical habitat for threatened and endangered fish species. I learned about our financial status and future needs. And I learned about all the planning work done during the past decade that has contributed to the current state of our utility.

In conducting my assessment, I used an integrated framework called Effective Utility Management, which was published in 2008 after a multi-year collaboration between the staff from EPA’s Office of Water and water utility leaders. The Effective Utility Management framework identifies 10 attributes of an effective drinking water utility. Inspired by the framework, but customized for Santa Cruz Water, these attributes include:



In the next few pages, I describe what I found in my assessment of Santa Cruz's Water Department's internal issues and challenges as related to the ten attributes of an effective drinking water utility. Following my findings, I lay out a practical course of action for the Department to work on during the next couple of years to make a strong organization even stronger, more resilient and more sustainable.

A final note: One finding that didn't surprise me was the strong commitment by Water Department staff to delivering a reliable source of high quality water which complies with all drinking water standards to protect public health and safety. This commitment is felt throughout the organization and is the basis for all decisions – large and small. It is a strong foundation on which to build.

Attributes of an Effective Drinking Water Utility

Product Quality

Product quality is an ongoing focus for any utility and Santa Cruz is no exception. Santa Cruz Water has a long history of consistently meeting all federal and state drinking water standards

Our commitment to support endangered coho salmon and threatened steelhead trout means that there will be a shift in the supply sources we can rely on. A new mix of supply resources will result in a shift in water quality. As we release more North Coast water for fish, we will rely more heavily on water from San Lorenzo River and Loch Lomond sources. Water from San Lorenzo River and Loch Lomond Reservoir sources is more challenging to treat because, as examples, Loch Lomond water contains naturally occurring organic material and the San Lorenzo is subject to storm-related turbidities. Both of these circumstances can make it more difficult to produce treated water that meets the Stage 2 Disinfectant and Byproducts Rule.

Routinely treated water with higher levels of turbidity or naturally occurring organic material results in greater quantities of solids that need to be disposed of. This puts added pressure on the solids disposal system at the Waste Water Treatment Plant, which is already constrained. Finally, replacing water normally diverted from flowing supplies with water from Loch Lomond reduces the amount of stored water available during the dry season—further reducing the system's ability to respond to drought.

Water Resources Adequacy

Since the 1977 drought of record, Santa Cruz Water has been evaluating the adequacy of its water supply to meet current and future needs. While various options for supplementing local water supplies have been identified, evaluated, and rejected—often as a result of community concerns raised as projects worked their way through the development and review process—significant investments in water conservation and a strong community conservation ethic have brought per capita demand in Santa Cruz to one of the lowest in the state.

The current drought, which as of mid-May 2014 is tracking only slightly better than the 1977 drought, is highlighting the limitations of Santa Cruz's water supply as it exists in the third consecutive year of lower than normal precipitation. The anticipated resolution of the City's commitment to release water to support the restoration of coho salmon and steelhead trout, and the potential implications of climate change on historic precipitation patterns and amounts, will further challenge the reliability of existing supplies.

Recognizing all that is at stake, the City Council has appointed a citizen-based Water Supply Advisory Committee to review water supply reliability issues and to make policy recommendations to the Council

on steps needed to improve system reliability. There is a lot riding on the outcome of the Committee's process, with the most important and hoped for outcome being a strong committee (and community) consensus on steps to take to address the City's critical water supply reliability issues. To achieve this outcome, City Council members, the City Manager, and water utility staff are investing heavily in the Water Supply Advisory Committee process, which is just getting underway. This group will work together during the coming year to learn about and develop recommendations for the City Council's consideration.

Customer Satisfaction

Utility customer service and conservation services staff clearly demonstrate a commitment to providing excellent customer service. Since the governor declared a state-wide drought, customer call volumes and visits have increased exponentially. Both regular and temporary staff provides an exemplary level of professionalism in their efforts to help customers learn how to reach their water-saving targets.

In today's information age, many of our customers are used to being able to access account information online in real time. The drought has made it clear to us that customers now expect more accessible and transparent metering information, and that the availability of the information would be useful in helping customers manage their water use both during and after the drought. Santa Cruz is transitioning to a more accessible metering system, but needs to pair it with a customer information system that supports access to metering information. Replacement of the City's customer information and utility billing system, and capacity to support improved customer access to metering information, will be a key criteria in system selection.

One way to help inform strategic decisions about system upgrades is to improve communication between the Department and our customers. We need to find ways to establish ongoing two-way communication with customers about services and information needs, with the ultimate goal being a service-level agreement between the Water Department and its customers that reflects both customer priorities and the ability of the Department to provide those services in a reliable and cost-effective manner. The current level of community awareness of water issues creates a rare opportunity to initiate dialogue that will be needed to support development of service level agreements, and will make following-up with customers in the months after the drought a priority for us.

Operational Optimization

The fresh eyes of new leadership at the top and in many of the key positions at Santa Cruz Water present a unique chance to conduct the organizational analyses to look for additional opportunities for improved efficiency and cost effectiveness. I noted that Santa Cruz Water's operating costs are on a rising trend. While there are many legitimate drivers of increased operating costs – for example, the costs of energy and chemicals tend to increase more rapidly than inflation—understanding how and why costs are changing, and continuously evaluating opportunities to improve organizational performance on key metrics, will be a key driver for the leadership team.

A benefit of a strong and well-aligned leadership team is the depth of knowledge and experience that can be brought to bear upon the often detailed task of dissecting numbers and understanding what is happening and why. Among the initiatives to be developed and implemented to support work on operational analysis and optimization will be a focus on continuous process improvement as an organizational norm and a standard way to do business.

Operational Resiliency

Operational flexibility or resiliency is an operational characteristic that many utilities have consciously traded off for lower costs over the last 50 years. A redundant system that was value engineered out of a project; extra capacity that was eliminated during a budget cutting cycle; postponement of a major system upgrade due to financial constraints; are examples of decisions that have left most utilities in a position that is more vulnerable to unforeseen circumstances than they'd like to be.

There is a legitimate discussion among utility leaders about how much redundancy, flexibility, and resiliency is enough. While there is probably no "one size fits all" answer to this question, making a conscious, systemic decision about how much operational resiliency is enough is something every water utility senior leadership team should do. Such an assessment needs to be based on a thorough assessment of their circumstances and needs.

For Santa Cruz Water, the operational resiliency issue that is most concerning to me is the capability of the Graham Hill Water Treatment Plant to perform at the level needed in light of current regulations and source and system configurations. In particular, the issues of water aging in the distribution system as it relates to the formation of disinfection byproducts and the potential shift in source water quality due to fishery restoration demands, present knotty problems where past conditions and performance may not be a very good indicator of future conditions and needs. Here's just one specific example: lower system demand due to Santa Cruz's strong water conservation ethic, while a great accomplishment from many perspectives, may lead to longer water residence times in the distribution system and thus higher levels of disinfection byproducts.

Understanding the present water treatment system and its strengths and weaknesses, and making it work well in a future fraught with uncertainty about, among other things, fishery releases and climate change, both of which will likely affect both source water quantity and quality, is a challenge that must be met. Millions of dollars are planned for and need to be reinvested in the Graham Hill Water Treatment Plant during the coming decade or two. To maximize the benefit of these expenditures, treatment plant investment must be designed with the future in mind. In light of uncertainty about the future, building in a reasonable amount of operational flexibility and resiliency to adapt to change is not only a good investment; it's the only rational thing to do.

Infrastructure Stability

Aging infrastructure is a common problem for utilities of all sizes across the country. For over twenty years, western water agencies have been facing the financial challenges associated with water distribution, and distribution storage facilities built at the turn of the century, which have reached the end of their useful life. Water agency associations have looked at the issues and published evaluations such as "The Dawn of the Replacement Era" and "Buried No Longer" to characterize the issues and to look at them from a national, regional and local perspective.

The situation in Santa Cruz is similar to those faced by medium-sized utilities elsewhere, especially those using surface water sources that have been affected by major regulations arising from the 1974 federal Safe Drinking Water Act and its 1986 and 1996 amendments. When you add the need for investments in conservation and supplemental water supplies to the cost drivers of surface water treatment regulations and aging infrastructure, it is not hard to see the situation as a perfect storm of independent yet inter-related cost drivers that demand creative and yet pragmatic solutions to keep the ship afloat.

From this perfect storm, however, water utility leaders have created strategies to help local utilities weather the storm. First and foremost is asset management, which uses detailed and ongoing asset condition assessments to drive and support data-driven decision making about what infrastructure to replace or when to initiate rehabilitation. The second is a strategy that uses a risk assessment and risk management framework to prioritize infrastructure projects. This risk management framework ranks projects based on two parameters: the probability of failure and the consequence of failure. The projects with the highest risk scores rise to the top of the list and have priority for funding.

Given Santa Cruz Water's financial challenges, and its aging infrastructure, developing and implementing asset management and risk assessment/risk management approach to capital planning will be a high priority strategy in the coming years. In addition, we will be developing a long-term financing plan for future capital expenditures that will include both debt financing and pay-as-you-go approaches to investing and reinvesting in the Santa Cruz water system.

Financial Viability

For much of the last decade or more, Santa Cruz Water has been on a strong financial footing based on the good financial planning work done in the early 2000s. A six year rate increase plan was put in place in 2004. Five of those rate increases were implemented between 2004 and 2008, with the 2009 increase postponed until 2011 due to the economic downturn. These rate increases were established to support anticipated expenditures for rehabilitation and replacement of capital facilities, as well as support work on a supplemental water supply. At the time the rate analysis work was completed, a supply project had not been selected.

During the last decade, ongoing capital reinvestments were financed almost entirely on a "pay-as-you-go" basis, using cash fund balances accumulated over a decade or more. This approach to financing capital expenditures is typically viewed as less expensive overall than debt financing, but few utilities these days have cash balances that are adequate to finance major capital investments using only pay-as-you-go financing. As Santa Cruz Water has ramped up its capital spending on projects such as the replacement of Bay Street Reservoir, rehabilitation of the North Coast transmission main, and getting started on some much needed rehabilitation work on the Graham Hill Water Treatment Plant, the lack of a clear long-term financing plan for capital expenditures has resulted in a significant expenditure from the Water Enterprise Fund's cash balance and an inability to proceed with additional capital reinvestment using the same funding strategy. In addition, the state of the fund balance means that Santa Cruz Water is not well positioned to absorb the revenue losses and increased costs associated with drought-related water curtailments.

As noted in both the April 8, 2014 staff report on the budget adjustment to support implementation of Stage 3 water rationing, we estimate that implementing water restrictions will cost water utility customers, who are our only source of revenue, at least \$4 million in combined lost revenue and added costs. The most significant implication of losing revenues due to curtailment is a threat to meeting our debt service coverage requirement for debt issued in 2006 for the Bay Street Transmission Main Replacement Project. This bond covenant requires us to maintain revenues that are at least 125% of expenses, and with expenses climbing and revenues falling, this criterion is exceedingly challenging to meet. This debt is in the process of being refinanced. The anticipated lowered debt service coverage level of 110% or 115% is one of the motivations for refinancing. While a lowered debt service coverage requirement will provide some additional flexibility, it does not eliminate the overall need to increase revenues.

Environmental Sustainability

Santa Cruz has a strong community-based commitment to sustainability and resource stewardship. Santa Cruz Water has played a lead role in creating and managing San Lorenzo watershed land, water, natural and recreational resources in a manner that recognizes the importance of these resources as community assets for today's users as well those of tomorrow.

An aspect of Community Sustainability that has been a topic of considerable attention by Santa Cruz Water during much of the past decade is the restoration of coho salmon and steelhead trout runs on the San Lorenzo River and Laguna Creek, and Steelhead Trout runs on Majors Creek and on Liddell Springs, which are the City's North Coast sources.

In my assessment, I identified the need for better integration of fishery restoration work with the Department's ongoing capital and operational planning and management activities. Although fishery restoration may seem like an issue somewhat separate from delivering potable water to customers, it's actually an issue with substantial implications for four of the key attributes described elsewhere in this report: water resources adequacy; product quality; infrastructure stability; and financial viability. Creating a sustainable solution for important fishery resources must take into consideration the implications of such a solution on other critical system elements as well as recognize the collateral benefits that come from such investments. For example, watersheds that can better support healthy aquatic ecosystems are also more likely to meet important source-water protection goals established by state and federal Safe Drinking Water legislation and regulation. Reaching an agreement that works for fish and works for the water system on which 94,000 customers depend must be the focus of the Habitat Conservation Plan negotiations with fishery management agencies, which will be convened in 2015.

Another Community Sustainability issue is the emerging reality of climate change. In addition to concerns about how climate change could impact the amount or timing of rain that produces Santa Cruz's water supply, there is the issue of greenhouse gas emissions, which result from our utility's energy use to facilitate storing, treating and delivering surface water, and pumping, treating and delivering groundwater to thousands of customers in various pressure zones throughout the system. Santa Cruz Water invested in installing solar panels on its downtown offices and the Graham Hill Water Treatment Plant and has taken additional steps toward energy demand optimization by using off-peak pumping to the extent it can. This year, however, drought conditions have made it imperative to capture and use water when it's available, as opposed to pumping it when energy rates are low. A more focused review of energy use in the current system could identify potential ways to further reduce greenhouse gas emissions associated with operating the current water system. And, this topic will certainly be a part of the discussion on potential supplemental water supply options that will be considered by the Water Supply Advisory Committee.

Employee and Leadership Development

Like many similar utility organizations across the country, the retirement of long-term senior leaders creates both challenges and opportunities. For us, the opportunity presented by the departure of several key organizational leaders during the past year and the more or less simultaneous appointment of new organizational leadership in engineering, finance, and department management, is to build a senior leadership team that makes decisions based on a more integrated view of the needs of the whole organization.

The challenge associated with building a team that takes a more systematic view of the organization is in integrating vastly different focuses and responsibilities into a unified vision that reflects broad understanding of the connectedness of issues that face our utility.

Creating a strong, aligned senior team that can work together to guide the organization is a key goal for any organizational leader who needs to bring the best minds to bear on knotty problems and issues. Santa Cruz Water has a plateful of such issues, with the current drought being the most pressing one. The organizational model being used to manage the drought, which is a version of the well-known Incident Command System which has been modified to reflect the longer-term nature of the water shortage emergency we are experiencing, has purposefully been designed to integrate issues across organizational lines. Once the drought is over, we will build on the relationships and integrated decision-making model used during the drought to create a well-functioning organizational leadership team that will lead the work of implementing the strategic initiatives described herein.

Another key to success is qualified, motivated employees who understand the work they need to do and feel they have the appropriate level of authority, as well as direction and support from management, to effectively do their work. I've been impressed by the knowledge and commitment of Santa Cruz Water's staff, and have heard from many sources that the quality and dedication of our staff is recognized and appreciated. With the trend of baby-boomer retirement clearly underway, effective leaders recognize the challenges of maintaining and building their organization's capacity to do its work.

Research shows that organizations that effectively maintain an organizational culture that engages their employees in decision-making and reduces internal silos will be 20% to 40% more productive than those that use a more traditional authoritarian/hierarchical form of organizational management. Engaging employees in designing Santa Cruz Water's organization of the future will be a high priority and is a key strategy for supporting many of the initiatives described elsewhere in this assessment.

Stakeholder Understanding and Support

The challenges, tasks, and initiatives described in this assessment are not likely to be successfully addressed without a large measure of community and stakeholder understanding and support. Citizen and community interests must have access to necessary information and have confidence that Santa Cruz Water's leadership is effectively sharing important information and actively informing and engaging them in issues that matter.

In addition to the long standing and very accessible efforts of the Water Commission, the Water Supply Advisory Committee will be another forum for the presentation and discussion of many aspects of the issues identified in this assessment, as well as those that will emerge over time. A companion to these efforts is a conscious strategy of openness and relationship building by Santa Cruz Water's leadership and staff to provide a strong foundation of connection to the community we serve. Initiatives to make the organization more open and accessible to the public, and to have a stronger and more positive presence in the community, are already being implemented as part of the department's response to the communication and outreach needs of our community during this water shortage emergency. Continuing and expanding the success of the drought communications and community engagement strategy is an important long-term initiative for Santa Cruz Water's success.

Action Plan and Next Steps

No assessment such as this would be complete without an action plan describing next steps. In thinking about any action plan, it is clear to me that the organization's capacity to take on new initiatives is constrained by the ongoing work already on its plate. On the one hand, realistically, implementation of the initiatives described under, for example the sections on Organizational Optimization, Infrastructure Stability, Customer Satisfaction, and Operational Resiliency, need to be undertaken only when conditions for success can be established and maintained. On the other hand, unless such initiatives are given a clear priority by the organization's senior leaders, history tells us that we can expect little to change from the status quo.

The only realistic solution to this dilemma is to phase implementation of initiatives. Using this approach will allow Santa Cruz Water's senior team and staff to maintain focus on our primary mission of serving the community with a reliable supply of high quality water, while undertaking new challenges that are identified as highest priority initiatives. The table on the following page summarizes new initiatives described in this assessment and provides the action plan and time frame for their implementation and completion.

LEADERSHIP AND SUSTAINABILITY INITIATIVE
Action Plan and Timeframe

Attribute	Action	Time Frame
Product Quality	Conduct future oriented planning for water quality and treatment, including integrating potential implications of fishery restoration and climate change on sources and treatment needs	Complete within 12 months to integrate into future capital planning
Water Resources Adequacy	Support the work of the Water Supply Advisory Committee to identify policy recommendations to improve water supply reliability	Complete within 12 months
Customer Satisfaction	Improve two-way communication, producing clear understanding and agreement on services and service levels	Complete within 18 to 24 months
Operational Optimization	Review past operating budgets to identify and characterize cost drivers that may be contributing to increased operating costs. Identify a set of continuous process improvement initiatives that can be implemented to improve operational performance by improving efficiency, cost-effectiveness and/or customer service.	Complete within 18 to 24 months.
Operational Resiliency	Review Santa Cruz Water's operational resiliency by identifying its ability to effectively manage a full range of business risks including those related to legal, regulatory, financial environmental, safety, security and natural disasters or other emergency. Identify risk issues that need to be addressed to improve operational resiliency and develop action plans and implementation schedules to address them.	Complete within 18 to 24 months.
Infrastructure Stability	Implement asset management, including developing and/or confirming infrastructure condition assessments and implementing a risk management approach to prioritizing CIP projects	Complete initial risk management-based prioritization for the FY 16-FY19 CIP.
Financial Viability	Create a long-term financing strategy for the CIP to include both pay as you go (cash) and debt financing. Use this financing strategy to inform future budget development and rate setting processes.	Complete within 12 to 18 months.
Environmental Sustainability	Negotiate terms and conditions for a habitat conservation plan for coho salmon and steelhead trout; continuously evaluate opportunities to improve energy efficiency.	Initiate negotiations in calendar year 2015; ongoing.
Employee and Leadership Development	Create a strong, aligned senior leadership team for Santa Cruz Water and identify and implement organizational development initiatives that will improve organizational performance, including, at least, employee engagement and leadership development.	Complete within 18 to 24 months.
Stakeholder Understanding and Support	Build on the community outreach and engagement process used in preparing for the 2014 drought to establish and maintain effective working relationships with community interests, stakeholders and customers.	Ongoing.



WATER DEPARTMENT MEMORANDUM

DATE: May 27, 2014
TO: Water Commission
FROM: R. Menard, Water Director
SUBJECT: Introduction to Santa Cruz Water Department's Financial Model

RECOMMENDATION: Receive Presentation.

The Water Department's financial consultants, Raftelis Financial Consultants, Inc., will be present to give an overview of the fiscal model the Department uses to project revenue requirements for the utility. This will be an opportunity for the Commissioners to gain a better understanding of the model, the factors used and to ask questions.