



Water Department

**Water Commission  
7:00 p.m. – June 6, 2016  
Council Chambers  
809 Center Street, Santa Cruz**

**Minutes of a Water Commission Meeting**

**Call to Order:** Chair W. Wadlow called the meeting to order at 7:01 p.m. in the City Council Chambers.

**Roll Call**

**Present:** W. Wadlow, L. Wilshusen, D. Engfer, D. Stearns, and D. Schwarm

**Absent:** D. Baskin and A. Schiffrin (with notification)

**Staff:** R. Menard, Water Director; H. Luckenbach, Deputy Director/Engineering Manager; D. Culver, Acting Chief Financial Officer; T. Goddard, Administrative Services Manager; N. Dennis Principal Management Analyst; A. Poncato, Administrative Assistant III

**Others:** There were approximately 5 members of the public.

**Presentation:** There was a presentation from Water for Santa Cruz County.

**Statement of Disqualification:** There were no statements of disqualification.

**Oral Communications:** There were no oral communications.

**Announcements:** Mr. Engfer praised the Loch Walks at the Loch Lomond Recreation Area.

**Consent Agenda**

1. Accept information on City Council Actions Affecting Water
2. Approve the May 2, 2016, Water Commission Minutes
3. Public Correspondence

Commissioner D. Schwarm moved the consent agenda. Commissioner D. Stearns seconded.

**VOICE VOTE: MOTION CARRIED**

**AYES:** All.

**NOES:** None

**ABSTAIN:** D. Engfer (Consent Agenda item 2. Approve May 2, 2016, Water Commission Minutes)

**ABSENT:** D. Baskin and A. Schiffrin

**Items Removed from the Consent Agenda**

No items were removed from the consent agenda.

## **General Business**

### 4. Long Range Financial Plan

Ms. Menard described the proposed water rates, and water rate structures, and responded to Commission questions.

Would it be helpful to include the aggregate balances of the reserve funds in this report?

- We have \$2.4 million in our rate stabilization reserve and \$600,000 in our emergency reserve. If we were to aggregate reserve funds, the result will be losing the differentiation of purposes that the different reserves are intended to serve. Our feedback from our financial advisor is that credit rating agencies and investors like to see that differentiation.

Why are the rate stabilization fund numbers and reserve fund numbers static rather than indexed to overall revenue as is the case for the 180 Days of Operating Cash?

- The rate stabilization reserve fund was established around 1994 and was intended to be about 10% of operating costs. However the funding amount was set at \$2.3 million and the Department didn't choose to change it to index it to operating costs or total revenue requirements in some way.

Are there legal restrictions on what we are able to use emergency funds for?

- No, there are no legal restrictions.

Is our bond rating dependent upon us holding a coverage ratio higher than we are presently required to cover?

- Our existing minimum bond covenant requirement is for debt service coverage to be a minimum of 1.15. Our financial advisors have indicated that a debt service coverage ratio between 1.2 – 1.5 would likely support a reasonably strong credit rating, but we are aiming for 1.5 to have a comfortable buffer.

Are we aiming for a minimum debt service coverage level of 1.5 until the day we sign the agreement and the money changes hands?

- No. The requirement for maintaining a debt service coverage ratio is part of the bond covenant and exists through the life of the debt. The debt covenant level may be lower than the financial policy goal, but the coverage ratio from the financial policy will be what we're targeting to achieve.

Why are you suggesting evaluating the Capital Financing Strategy in 5 years instead of 3 years?

- We are proposing a five year schedule of rates. Now that we have the modeling tools that we have, we will be using these tools on an ongoing basis and we will be checking back in to see how the plan is going.

Was an analysis of potential financial impacts to the department if market conditions are not what we anticipate completed?

- We did not specifically do a sensitivity analysis on changing market conditions. However, all future debt assumes an interest rate of 5%, which we know is higher than the interest rate we'll be paying for the I-Bank loan, which is 3.34%. Lower interest rates mean lower debt payments. So while we didn't specifically do a sensitivity analysis on market conditions, we do have some flexibility to adapt to changing conditions in the first 5 years. And, we'll get a chance to update all these assumptions when we review and set rates for the second 5 years.

Do you have a sense of whether or not we have critical components to our capital program that wouldn't be able to move forward in a timely manner if the market conditions were more favorable?

- We have pushed some projects, for example, investments in automated metering infrastructure off to make room for other priority projects. If market conditions were very favorable, for example, we could potentially accelerate some of these types of projects.

**Final Comments and Requests for Follow Up: Additional Comments**

- Reinforce that we are aiming for a 1.5 debt service ratio in the report.
- Add Net Revenues to the bold bullet on page 30 of the long range financial plan.
- On page 31, update 3rd sentence in 4.3 Capital Improvement Plan to state: "Major expenses to implement the Water Supply Augmentation Strategy are anticipated to occur in the second five years of the financial planning horizon."
- On page 33, review the last sentence of the 2<sup>nd</sup> paragraph under 5.1 Capital Financing Strategy. It appears to be out of context.
- Typo on page 36, 2<sup>nd</sup> sentence of the first paragraph should read, "...revenue needs to increase 19%"
- Typo on page 36, 3<sup>rd</sup> sentence of the second paragraph should read, "Conversely, customers will experience a greater increase..."

Commissioner D. Engfer moved that the Water Commission recommend to the City Council that they adopt the Long Range Financial Plan. Commissioner Stearns seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

ABSENT: D. Baskin and A. Schiffrin

5. Recommendations on Water Rate Structure and Charges for FY 2017 – FY 2021

Sanjay Gaur from Raftelis Financial Consultants provided a presentation of proposed water rates and water rates structures. Mr. Gaur and Ms. Menard responded to Commissioner questions.

Have you spoken to UCSC about the rate increase?

- No, we are working on outreach to various customers now.

Will the rate stabilization fee will be applied the same across the board?

- Yes, to both inside and outside customers and at the same amount.

Is the \$1.00 per CCF surcharge going to be buried into the CCF charge on monthly bills or will it be itemized each month?

- That has not been decided yet. It is currently integrated into one charge and we have one year to make that decision.

### **Additional Comments**

- Slide on page 22 is a great marketing tool.
- It is worth communicating with the University about these rate increases.
- In regards to a presentation to the City Council, it may be useful to depict what customers are going to see happen to their bill over a period of a few years.

### **Final Comments and Requests for Follow Up**

- Remove the question marks from Scenario vs. Pricing Objectives on page 13 of the study.
- Add a footnote to the slides on page 18 and 19 stating that these fees were applied across the board and not per component.

Public comment made by E. Grodberg and S. McGilvary.

Commissioner D. Schwarm moved to approve the staff recommendation, which includes the following:

1. water rate structures and rate increases for this period,
2. establishing an Infrastructure Reinvestment Fee to support both pay-as-you-go and debt financed capital spending,
3. retaining a Drought Cost Recovery Fee structure, and
4. using a \$1 per CCF surcharge to increase the Rate Stabilization Reserve to provide for long term revenue stability as well as rate stability. Commissioner D. Engfer seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

ABSENT: D. Baskin and A. Schiffrin

## **6. Quarterly Update on Status of Work on Water Supply Augmentation Strategy**

Ms. Luckenbach provided a brief presentation of the update on the status of work on water supply augmentation strategy and responded to Commissioner questions.

What are the rate limiting factors for the short term in lieu water transfer with Soquel Creek that point us toward 100mg – 200mg as the effective range of water available to transfer in the near term?

- One factor is Soquel Creek's winter demand. With an in lieu transfer, you can only provide the amount that is being consumed during the winter. Another factor constraining the volume to 1.5 mgd is the hydraulic capacity of the interties between the two systems. Finally, the initial agreement was limited to the amount of water that was predictably available from both Liddell Creek and Majors Creek. Water from Laguna

Creek was not included in those calculations because of the role that it plays in fish flows, even during the winter season.

Can we have an update on HCP and water rights?

- We are in the process of scheduling a meeting with top level staff of the state and federal fishery agencies in which we will present our proposal for an agreement including what we expect in return. Several key policy makers from state fishery and water management agencies were in town last week for a tour for the San Lorenzo 2025 Project, which is focused on finding funding for significant investments in San Lorenzo River watershed restoration projects. The San Lorenzo 2025 project is a collaboration of Santa Cruz County, the Resource Conservation District, the Coastal Watershed Council and the City of Santa Cruz to package watershed health projects together in a manner that would allow us to be more competitive in competing for watershed restoration funds.

### **Final Comments and Requests for Follow Up: Additional Comments**

- One of the issues we should work on over the coming months is preparing a presentation for the City Council to provide an update from the Water Commission about progress being made in implementing the Water Supply Augmentation Strategy.

Public comment made by S. McGilvary and J. Paul.

No action was taken.

### **Subcommittee/Advisory Body Oral Reports**

#### **7. 2015 Urban Water Management update.**

Mr. Goddard described the status of the Urban Water Management plan and responded to Commission questions.

When is the due date for the 2015 Urban Water Management Update?

- July 1, 2016. Staff has notified the state that the City's submittal will be delayed and should be submitted during September.

No action was taken.

**Directors Oral Report** No action shall be taken on this item.

- Attended the San Lorenzo Water District meeting last week and will be attending the Soquel Creek Water District on June 21, 2016 (note – appearance at the Soquel Creek Board was deferred until July 19, 2016).
- Going to City Council next week to discuss the financial plan and water rates. City Council will be asked to adopt the Long Range Financial Plan and to authorize the issuance of the Proposition 218 Notice for the proposed rate increases. August 23rd is the scheduled public hearing for the proposed rates with any approved rate changes going into effect in October.

**Adjournment** Meeting adjourned at 9:56 p.m. The next regular meeting of the Water Commission is scheduled for August 1, 2016, at 7:00 p.m. in the Council Chambers.

Respectfully submitted,

Amy  
Poncato

Digitally signed by Amy Poncato  
DN: cn=Amy Poncato, o=Water  
Department, ou=Administration,  
email=aponcato@cityofsantacruz.  
com, c=US  
Date: 2016.11.28 14:55:28 -08'00'

---

Staff