



Water Commission
7:00 p.m. – June 5, 2017
Council Chambers
809 Center Street, Santa Cruz

Water Department

Minutes of a Water Commission Meeting

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

Roll Call

Present: L. Wilshusen (Chair), D. Engfer (Vice-Chair), D. Baskin, J. Mekis, A. Schiffrin, D. Schwarm

Absent: W. Wadlow (with notification)

Staff Present: R. Menard, Water Director; H. Luckenbach, Deputy Director/Engineering Manager Engineer; T. Goddard, Water Conservation Manager; B. Pink, Environmental Projects Analyst; N. Dennis, Principal Management Analyst; A. Poncato, Administrative Assistant III.

Others: There were two members of the public.

Statements of Disqualification – There were no statements of disqualification.

Oral Communications – There were no oral communications.

Announcements – There were no announcements.

Consent Agenda

2. Approve the May 1, 2017, Water Commission Minutes.

Commissioner Schiffrin moved the Consent Agenda Item 2 Approve the May 1, 2017, Water Commission Minutes. Commissioner Engfer seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None.

ABSENT: W. Wadlow

ABSTAIN: D. Baskin and D. Schwarm were not present at the May 1, 2017, Water Commission meeting.

Items Removed from the Consent Agenda

1. Accept the City Council Actions Affecting Water Department.

Commissioners had questions about the information report on the Water Use Efficiency at the University of California.

The University wants to reduce their potable water use by 35 percent by 2025. What is the baseline year for this reduction?

- The baseline period is from 2005 – 2008.

How is the city involved in the Long Range Development Plan (LRDP) with the University of California Santa Cruz (UCSC)?

- The University plans to establish a community advisory committee and Water Department staff works with the University staff members on an ongoing basis related to water issues. Part of the reason that we included this information in the Council agenda item is to show that their water use is far below what was expected.

It should be noted that this report only reflects water use by students who reside on campus and does not address the student water use for those who live off campus. There could very well be a hidden increase in water use if the student population continues to grow.

- Actually, the Council item includes all water used by UCSC much, but not all of which is used by students who reside on campus. Additionally, the water system demand forecast prepared for WSAC factored in the anticipated population growth from 96,000 residents to a projected 112,000 residents by 2035, so potential growth in student population, should it occur in the community rather than on the campus would be covered by this provision.

This report is confusing. The University's water needs in the demand forecast developed during WSAC are going up to over 300 million gallons per year in 2035 but the goal in the proposed UCSC Water Action Plan is to reduce water use 35% by 2025 on a per capita (enrolled student) basis compared to the level in 2005-08.

- As discussed in the meeting, the University's water demand in 2020 was estimated in the 2005 LRDP at 349 million gallons per year. The WSAC forecast did not change that number. Rather it extended the time period for achieving that demand from 2020 to 2050.
- The basis for this decision was that information on projected enrollment beyond 2020 was unavailable and that the University's 2013 (pre-drought) demand was far below its projections from the 2005 LRDP.
- At the time of the development of the WSAC demand forecast, the University had not yet adopted what eventually became their 35% reduction target for future water use; and
- The amount of University water included in the forecast is NOT an entitlement for the University. It is a projection of their future water use that was developed due to the factors described above. Nothing about the forecast entitles them to the quantity of water included in the forecast.

Commissioner Schiffrin moved the Consent Agenda Item 1. Accept the City Council

Actions Affecting the Water Department. Commissioner Baskin seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None.

ABSENT: W. Wadlow

General Business

3. FY 2018 Proposed Capital Improvement Program (CIP) and Operating Budget. Ms. Dennis provided an overview of the FY 2018 Pro-Forma which included the FY 2018 Proposed (CIP) and FY 2018 Operating and Maintenance Budget.

How do you plan to keep pace with the planned CIP in those years where capital expenditures spike but there is no equivalent increase in personnel expenditures?

- We plan to hire a Program Management team to help us supplement staffing as soon as possible. The concept is that a consultant or team of consultants can add breadth and depth to staff as we begin to implement our very aggressive CIP.

The Pro Forma shows no rate increases until FY 2022. Did the City Council approve any water rate increases past 2022?

- Rate increases after FY 2021 have not been approved. We have five years of rate increases approved through FY 2021 and then we will conduct another cost of service analysis to determine the revenue requirements for the utility and possible rate increases for the next five years at that time.
- No rate increases are shown for the first few years because they are already embedded in the Pro Forma.

Capital expenditures over the next eight years are planned to total approximately \$250 million dollars and it seems like the expectation is to complete the entire CIP by 2025. Is it a realistic expectation the Water Department is going to get all the projects completed in this timeframe? Was the Department going to spread out this major CIP over more years?

- The Department is not planning to spread out the CIP over more years. The Financial Plan reviewed by the Water Commission and adopted by the City Council in June of 2016 contemplated a nearly \$300 million CIP that included both rehabilitation and replacement of major water supply, transmission and treatment infrastructure and development of a new water supply project by 2025.
- To avoid having both the water supply project and the infrastructure rehabilitation replacement projects in construction at the same time, the strategy has been to work on the infrastructure portion of the plan in the first five years while completing the planning work on the water supply project. Years 6 through 10 will be focused on constructing the water supply project.
- The commitment made in the Water Supply Advisory Committee (WSAC) process was to evaluate the alternative recommendation during the first five years, make a decision on which alternative to pursue in 2020 and have the water supply

project(s) implemented and online by 2025. The Department has been working very hard to get itself organized to meet these goals.

The plan outlined in the Pro Forma represents an increase in debt service costs from the current \$2 million in FY 2018 to over \$15.5 million in FY 2028. What portion of the ending balances required in the Pro Forma is being driven by debt service payments and maintaining the debt service coverage ratio?

- The 1.5x debt service coverage ratio, approved as part of the Long Range Financial Plan (LRFP) by the City Council and Water Commission, means your net income must be more than 1.5 times the amount of your debt service. The 50% additional annual revenues that must be collected over and above what you have to pay in debt service is a cash balance that is (and will be) applied towards the amount of “pay as you go” capital in the next fiscal year.
- During our work on the LRFP over the last two years, we carefully looked at these types of concerns. Debt service payments will represent approximately 20 to 25% of revenues in the out years. While this is a lot more than it has been historically, it is a reasonable level of debt for a utility of our size to carry and is necessary to accomplish the magnitude of capital investment over the next 8 years. It will also allow us to achieve some inter-generational equity by putting some of this financial burden on future generations who will receive the benefit of the investments that are being made in the water system for many years to come.

Is it reasonable to assume we will spend the full \$32 million in FY 2020 on the Newell Creek Inlet/Outlet Pipeline project?

- We have a State Division of Safety Dams (DSOD) deadline we must meet, therefore; the projects must be completed on time.

Why is there no grant funding shown in the Pro Forma?

- It isn't appropriate to build in speculative sources of funding/revenues in the Pro Forma. However, we certainly recognize the benefits of finding grant or low interest loans to finance our projects and we are working on pursuing both grant and low interest State Revolving Fund (SRF) funding for the CIP.

What is the logic being used to determine which CIP projects we will charge staff/labor costs to?

- We focused on including projects over \$2 million and projects where the staff is devoting over 50% of their time to make tracking easier for staff.
- Cash flow analysis for capital projects is also being implemented and will be included in future versions of the CIP. This analysis will support both tracking of spending and also help to inform resource allocation.

Final Comments and Requests for Follow Up

- Commissioners appreciated the information provided in the Pro Forma for FY 2018.
- Look into indexing those reserve funds that currently are set at a specific dollar value (e.g., the Emergency Reserve) to maintain more stable cash balances.

- Add year to year change and percent of revenue analytics to the annual budget presentation to the Commission.
- Continue to provide the summary “CIP Projects Overview” in future CIP budget presentations.
- Look into analyzing the resiliency of the water system given our experience with the winter storms and failures experienced in early 2017.
- Add a footnote to the Pro Forma to indicate that rate increases after FY 2021 as shown in the first line of the document have not been approved and are only projected rate increases based on the revenue requirements show in the Pro Forma.
- Commissioners suggested that the Department work to develop the discipline to track staff time by project for all projects, rather than just some.

Commissioner Baskin moved that the Water Commission recommend that the City Council approve the Water Department’s FY 2018 Proposed CIP Budget and Operating Budget. Commissioner Mekis seconded.

VOICE VOTE: MOTION CARRIED

AYES: L. Wilshusen, D. Engfer, D. Baskin, J. Mekis, D. Schwarm

NOES: A. Schiffrin.

ABSENT: W. Wadlow

4. Water Supply Augmentation Strategy, Quarterly Work Plan Update (WSAS)

Ms. Luckenbach provided an overview of the Water Supply Augmentation Strategy (WSAS) Quarterly Work Plan Update.

What action items will the Commission make this year?

- One of the recommendations we need is the selection of element 3, which is the comparison of the recycled water and desalination alternatives. The decision to choose one of them needs to be made by the end of the calendar year as per the WSAC implementation schedule. We will also need confirmation on the criteria and the approach used to apply the criteria to do the evaluations on the recycled water and desalination alternative projects.

Will the Water Department be conducting water audits in county parks in our Outside City water service area?

- We have the funding to do more field surveys and we certainly can consider extending the approach used with City Parks to County Parks.

What is the procurement process and timeline for the Pipeloop RFQ?

- We received three statements of qualifications on June 2nd and pushed the deadline out until June 9th in hopes to get a fourth statement of qualification. There is a team in place who will begin to review the statement of qualifications beginning June 14th. There is a tentative schedule to do interviews the following week which may be pushed out a week. City Council is not meeting in July, so we could have a contract ready for City Council by August.

What involvement does UCSC have in the Advanced Treated Recycled Water project?

- One of the projects looked at in the Recycled Water study was a service area wide non-potable reuse project. It was presented as part of the options being reviewed in the February 6, 2017 Water Commission Workshop on recycled water. The 4 phases that were identified and evaluated related to the infrastructure (i.e. purple pipe) that would be needed to deliver tertiary treated wastewater to various areas of the City where there is enough irrigation demand to justify building infrastructure to deliver this product. One of the phase would be identified and evaluated would focus on UCSC irrigation demand and other potential non-potable use in dual plumbed buildings. As the City has worked on the recycled water study staff and supporting consultants have had several informal discussions with UCSC about their interest and possible participation in a possible future project.

If injection rates are reduced for whatever reason, would that fact require more wells as we currently have assumed, and do we have the space for those wells?

- The groundwater modeling scope of work includes twenty different scenarios in the Santa Margarita Basin, so we will be able to look at how many wells we need and where we would need to put them.

Have advancements in the climate change models as the science progresses changed our assumptions?

- There are two different climate-related areas of focus to think about. The first looks at a drought sequence (how long and at what frequency droughts occur) and the second looks at climate change impacts on hydrology. The technical advisory committee for the groundwater model will revisit the climate models so we have the correct predictions in terms of changed hydrology. It is currently not in the plan to revisit the recommendation from the Water Supply Advisory Committee (WSAC) to reevaluate the drought sequence. It can be done over time, but it is not a priority at this moment.

Final Comments and Requests for Follow Up

- Updated Water Commission work plan to be presented at the August water commission meeting.

5. Update on Implementation of the Sustainable Groundwater Management Act in Mid and Northern Santa Cruz County.

Ms. Menard provided an update on Implementation of the Sustainable Groundwater Management Act in Mid and Northern Santa Cruz County basically reiterating the key points from the staff memo included in the Water Commission agenda packet.

Subcommittee/Advisory Body Oral Reports

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

- MGA partnered with SkyTEM and Ramboll in May to analyze the offshore interface between fresh water and salt water. A low flying helicopter collected information that will be used to forecast saltwater intrusion in Santa Cruz County.

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

- Water supply is continuing to be good.
- Algae levels in Loch Lomond have been much higher than usual and we don't anticipate using Loch Lomond as the main source of supply until August so we're watching very carefully what is going on with the lake to make sure we have the water we need later in the season.

Adjournment Meeting adjourned at 8:34 p.m. The next meeting of the Water Commission is scheduled for August 7, 2017, at 7:00 p.m. in 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: 2017.08.08 08:23:35 -07'00'

Staff