

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



Water Department

WATER COMMISSION

Regular Meeting

June 01, 2020

7:00 P.M. GENERAL BUSINESS AND MATTERS OF PUBLIC INTEREST, COUNCIL
CHAMBERS/ZOOM

COVID-19 ANNOUNCEMENT: This meeting will be held via teleconference ONLY.

In order to minimize exposure to COVID-19 and to comply with the social distancing suggestion, the Council Chambers will not be open to the public. The meeting may be viewed remotely, using any of the following sources:

Facebook Live: https://www.facebook.com/SantaCruzWaterDepartment/?epa=SEARCH_BOX

PUBLIC COMMENT:

If you wish to comment on items 1-7, please see information below:

- Call any of the numbers below. If one is busy, try the next one. Keep trying until connected.
 - +1 669 900 9128
 - +1 346 248 7799
 - +1 253 215 8782
 - +1 301 715 8592
 - +1 312 626 6799
 - +1 646 558 8656
- Enter the meeting ID number: **977 6938 2537**
- When prompted for a Participant ID, press #.
- Press *9 on your phone to "raise your hand" when the Mayor calls for public comment.
 - It will be your turn to speak when the Mayor unmutes you. You will hear an announcement that you have been unmuted. The timer will then be set to 2 minutes
 - You may hang up once you have commented on your item of interest.
 - If you wish to speak on another item, two things may occur:
 - 1) If the number of callers waiting exceeds capacity, you will be disconnected and you will need to call back closer to when the item you wish to comment on will be heard, or
 - 2) You will be placed back in the queue and you should press *9 to "raise your hand" when you wish to comment on a new item.

NOTE: If you wish to view the meeting and don't wish to comment on an item, you can do so at any time via one of the three methods above.

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

APPEALS: Any person who believes that a final action of this advisory body has been taken in error may appeal that decision to the City Council. Appeals must be in writing, setting forth the nature of the action and the basis upon which the action is considered to be in error, and addressed to the City Council in care of the City Clerk.

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.

Call to Order

Roll Call

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

Oral Communications - No action shall be taken on this item.

Announcements - No action shall be taken on this item.

Consent Agenda (Pages 1.1 - 5.17) Items on the consent agenda are considered to be routine in nature and will be acted upon in one motion. Specific items may be removed by members of the advisory body or public for separate consideration and discussion. Routine items that will be found on the consent agenda are City Council Items Affecting Water, Water Commission Minutes, Information Items, Documents for Future Meetings, and Items initiated by members for Future Agendas. If one of these categories is not listed on the Consent Agenda then those items are not available for action.

1. City Council Actions Affecting the Water Department (Pages 1.1 - 1.2)

Accept the City Council Actions Affecting the Water Department.

2. Water Commission Minutes from May 4, 2020 (Pages 2.1 - 2.7)

Approve the May 4, 2020 Water Commission Minutes.

3. FY 2020 3rd Quarter Financial Report (Pages 3.1 - 3.6)

Accept the FY 2020 3rd Quarter Financial Report

4. Updated Working Draft of the Water Commission 2020 Work Plan (Pages 4.1 - 4.3)

Accept an updated working draft of the Water Commission's 2020 Work Plan.

5. Santa Cruz Water Program Update (Pages 5.1 - 5.17)

Receive information on the progress of the Santa Cruz Water Program and planned activities for Fiscal Year 2021.

Items Removed from the Consent Agenda

General Business (Pages 6.1 - 8.7) 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.

6. Discussion of Water Pricing Objective Exercise (Pages 6.1 - 6.3)

Approve a set of Water Pricing Policy Objectives to be used in developing future rate structures (continued from May 4, 2020).

7. FY 2021 Operating and Capital Budgets (Pages 7.1 - 7.34)

Receive information and provide feedback to staff on the Water Department's FY 2021 Operating and Capital Budgets to the City Council outlining the process and information reviewed by the Water Commission.

8. Briefing on Graham Hill Water Treatment Plant Facilities Improvement Project (Pages 8.1 - 8.7)

Receive a briefing on the Graham Hill Water Treatment Plant Facilities Improvement Project including staff's recommendation to pursue the use of the best value project delivery method, Progressive Design Build.

Subcommittee/Advisory Body Oral Reports - No action shall be taken on this item.

9. Santa Cruz Mid-County Groundwater Agency

10. Santa Margarita Groundwater Agency

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

Information Items

Adjournment

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WATER COMMISSION
INFORMATION REPORT

DATE: 5/27/2020

AGENDA OF: June 1, 2020
TO: Water Commission
FROM: Rosemary Menard, Water Director
SUBJECT: City Council Actions Affecting the Water Department

RECOMMENDATION: Accept the City Council actions affecting the Water Department.

BACKGROUND/DISCUSSION:

May 12, 2020

First Amendment Recycled Water Facilities Planning Study – Phase 2 (WT)

Motion carried authorizing the City Manager to execute First Amendment to the Professional Services Agreement for Phase 2 Recycled Water Facility Planning Study in the amount of \$496,205 with Kennedy/Jenks Consultants of San Francisco, CA in a form approved by the City Attorney.

Water Street Water Main Replacement - Notice of Completion (WT)

Motion carried to accept the work of The Don Chapin Company, Inc. (Salinas, CA) as complete per the plans and specifications and authorizing the filing of a Notice of Completion for the Water Street Water Main Replacement.

2nd Reading and Final Adoption of Ordinance No. 2020-08 Amending Sections 3.08.030 and 3.08.100 of, and Adding Section 3.08.091 to, the Santa Cruz Municipal Code to Establish Regulations for the Use, Award and Evaluation of Best Value Project Delivery Methods for Construction Projects (WT)

Ordinance No. 2020-08 was adopted amending Sections 3.08.030 and 3.08.100 of, and adding Section 3.08.091 to, the Santa Cruz Municipal Code to establish regulations for the use, award and evaluation of best value project delivery methods for construction projects.

May 26, 2020

Newell Creek Dam Inlet/Outlet Replacement Project: Master Service Agreement NCD-Second Amendment with Ecological Concerns Incorporated for Restoration and Revegetation Services (WT)

Motion carried authorizing the City Manager to execute NCD-Second Amendment to the Master Services Agreement for additional professional services related to the restoration and revegetation for the Newell Creek Dam Inlet/Outlet Replacement Project with Ecological Concerns Incorporated (Santa Cruz, CA) in a form approved by the City Attorney.

University Reservoir 5 Replacement Project: Master Service Agreement U5-First Amendment with Ecological Concerns Incorporated for Restoration and Revegetation Services (WT)

Motion carried authorizing the City Manager to execute U5-First Amendment to the Master Service Agreement for professional services related to restoration and revegetation for the University Reservoir 5 Replacement Project with Ecological Concerns Incorporated (Santa Cruz, CA) in a form approved by the City Attorney.

PROPOSED MOTION: Motion to accept the City Council actions affecting the Water Department.

ATTACHMENTS: None.



Water Department

Water Commission
7:00 p.m. – May 4, 2020
Council Chambers/Zoom Teleconference
809 Center Street, Santa Cruz

Summary of a Water Commission Meeting

COVID-19 ANNOUNCEMENT: This meeting was held via teleconference ONLY.

In order to minimize exposure to COVID-19 and to comply with the social distancing suggestion, the Council Chambers will not be open to the public. The meeting may be heard remotely via telephone by following the directions listed below.

PUBLIC COMMENT AND ORAL COMMUNICATIONS:

If you wish to comment on items 1-7, please see information below:

Call at the start of the item.

- Call any of the numbers below. If one line is busy, try the next one.
 - 1-669-900-9128
 - 1-346-248-7799
 - 1 253-215-8782
 - 1-301-715-8592
 - 1-312-626-6799
 - 1-646-558-8656
- Enter the meeting ID number: **962 5739 9925**
- When prompted for a Participant ID, press #.
- Press *9 on your phone to “raise your hand” when the Chair calls for public comment.
 - It will be your turn to speak when the Chair unmutes you. You will hear an announcement that you have been unmuted. The timer will then be set to three (3) minutes.
 - You may hang up once you have commented on your item of interest.
 - If you wish to speak on another item, two things may occur:
 - 1) If the number of callers waiting exceeds capacity, you will be disconnected and you will need to call back closer to when the item you wish to comment on will be heard, or
 - 2) You will be placed back in the queue and you should press *9 to “raise your hand” when you wish to comment on a new item.

NOTE: If you wish to listen to the meeting and don’t wish to comment on an item, you can do so at any time via one of the three methods above.

Call to Order: 7:10 PM

Roll Call

Present: D. Engfer (Chair), S. Ryan (Vice-Chair), J. Mekis, A. Páramo, D. Schwarm, W. Wadlow, L. Wilshusen

Absent: None

Staff: R. Menard, Water Director; C. Coburn, Deputy Director/Operations Manager; K. Crossley, Senior Professional Engineer; H. Luckenbach, Deputy Director/Engineering Manager; N. Dennis, Acting Finance Manager; B. Pink, Environmental Programs Analyst II; K. Fitzgerald, Administrative Assistant III

Others: 3 members of the public.(unidentified callers)

Presentation: None.

Statement of Disqualification: None.

Oral Communications: None.

Announcements: None.

Consent Agenda

1. City Council Items Affecting the Water Department

What was the outcome of the bid protest?

- Four contractors had been prequalified and the bid protest was related to whether the submittal of documents related to utilization of women, minority and disadvantaged business, which are related to the SRF loan, had to be submitted with the bid documents. The bid document allowed for the submittal of these documents after the bid due date. The protested bid was submitted by Obayashi, Inc. (who was not the low bidder). The lowest bidder had submitted these documents accordingly and thus was awarded the contract.

Commissioners requested that the staff report be amended to include Consent Item 11 from the March 24th City Council meeting which was left out in error.

2. Water Commission Minutes From March 2, 2020

4. Update on City Charter and Municipal Code Changes to Enable Best Value Project Delivery

Commissioner Wilshusen moved the Consent Agenda as amended. Commissioner Wadlow seconded.

VOICE VOTE: MOTION CARRIED

AYES: All

NOES: None

ABSTAIN: None

Items removed from the Consent Agenda

3. FY20 2nd Quarterly Financial Report

On page 3.5, why are there large variances on actual vs. YTD budget for Operating Expenses and will this become a trend on future financial reports?

- Two items make-up the majority of the variances. First, the savings in salaries and benefits is due to staff charging time to CIP projects which were not included in the FY 2020 Approved Budget but were included in the Mid-Year adjustment. The second is due to a slower than anticipated start on various operating projects. The variances will be smaller in the 3rd quarter.

No public comments were received.

Commissioner Wilshusen moved Item 3. Commissioner Ryan seconded.

VOICE VOTE: MOTION CARRIED

AYES: All

NOES: None

ABSTAIN: None.

5. Annual Water Supply Outlook

Commissioners suggested that staff provide an update on water conditions at a future meeting.

Can staff provide a mid-season update on water demand in the last few weeks?

- Yes, we are monitoring water usage from several aspects:
 - Total demand: We are analyzing April demand which is showing a slight increase in water use at single-family resident and multi-family resident accounts, while usage from business has decreased which is expected due to the shelter in place order.
 - Aging Accounts: We are gathering data on how many accounts are being paid in full and how many are carrying balances, and using this information to get a sense about how the impacts of COVID 19 will affect our financials.
- For water use restrictions; we are not recommending that restrictions be put in place at this point in the season; however, if we start to see drastic changes in demand and or water conditions in the coming months that places the community at risk of low water supply this year or next year, we will implement restrictions.

How can we relay the reason why we are not implementing restrictions to the public?

- While we always encourage wise water usage, we do not feel that there would be a benefit to encouraging greater water conservation during this time. We will discuss options for messaging and discuss more fully at the Commission next month.

Commissioners suggested that staff advertise the current rebate programs that are available to customers.

No public comments were received.

Commissioner Wilshusen moved Item 5. Commissioner Schwarm seconded.

VOICE VOTE: MOTION CARRIED

AYES: All

NOES: None

ABSTAIN: None

General Business

6. Priority Setting For Water Pricing Objectives

Ms. Menard introduced Mr. Sanjay Gaur from Raftelis Consulting for the presentation and discussion on priority setting for Water Pricing Objectives.

Considering that the City of Santa Cruz met the California Water Board's Best Practices on Efficacy on Conservation Pricing standards amongst districts in Northern California, what can the Department do to improve when it comes to determining rate structures?

- This water pricing objective discussion is a good way to ensure that the goals being used in rate design are thoughtfully prioritized in light of conditions in place when the work is being done. Examples of the kind of things that will be important to consider in this round of rate making include the continued use of the existing tiered structure and how to maintain affordability and equality for low-income residents.

How will the current uncertain circumstances affect the process for setting water pricing objectives in the coming months?

- The goals and objectives developed through the water pricing exercise will be revisited as time goes on and events unfold. We are starting the conversation and work early, which provides flexibility should we need to change to adapt to changing conditions.

Why is compliance with Proposition 218 listed as a pricing objective?

- While compliance with Prop 218 will be met regardless, it is listed as an objective because its requirements do shape the way that rates are ultimately set.

Do we have the capability to use a "means test", examining one's ability to pay for water, as a pricing objective?

- No, under Prop 218 rates need to be based on the cost of providing the service and the benefit received by the property. We do this on a customer class basis and the law requires that all similarly situated customers be treated the same.

How are water transfers and exchanges to neighboring agencies categorized in Customer classes?

- Proposition 218 doesn't apply in the water transfer situation, but Prop 26 does play a role. We will look at what cost components should apply to the receiving agency when they receive the water and can charge any amount that is justified based on the benefits to the parties as long as it isn't higher than the cost of providing the service.

How are costs allocated to "Outside City" customers?

- The Department completed an extensive, data-driven process in 2016 to evaluate whether there was a difference in the cost of providing water service to inside versus outside city customers. The analysis looked at the cost of operating and maintaining the infrastructure used to deliver water to outside city customers as compared to the cost of providing service to inside city customers. This logic will be revisited to see if it continues to make sense.

Ms. Menard commented that the costs on page 6.16 are not only to cover operating expenses but they include the maintenance of backbone infrastructure that is needed to provide a reliable supply.

It is possible to do an analysis that could show what revenues could have been had a different structure been implemented?

- Not really. We can look retrospectively at consumption under each tier. Of the tiers, Tier 1 consistently has the highest consumption.

What other conceptual frameworks, aside from tiering, can be used to evaluate how customers are responding to the current rate structures?

- In 2016 we looked at the idea of using a water budgeting approach to rates, which would have allocated a specific amount to each household based on number of people in the household and irrigated land. Because Santa Cruz is already so efficient it did not have much impact and as that approach is quite onerous to implement, it didn't make sense to pursue it.
- Water budget rates were implemented on irrigation accounts and those who went over budget are charged more if they exceeded their budget.

Why was the peak use at zero for North Coast Agriculture customers when their peak typically occurs during the summer?

- We will bring more information on this at the next meeting.

Mr. Gaur introduced the Pricing Objective Exercise to Commissioners. Commissioners were asked to prioritize water pricing objectives. After some discussion, it was agreed that Commissioners would individually complete the pricing objective exercise and send the results to Ms. Menard who would collect all completed work and send it to Raftelis for analysis. The results of the completed exercise and the discussion of those results will occur at the Commission's June 1st meeting.

No public comments were received.

No action was taken on this item.

7. FY 2021 Operating and Capital Budgets

Ms. Menard introduced Ms. Nicole Dennis, Ms. Heidi Luckenbach, Ms. Malissa Kaping and Mr. Dave Culver for the discussion of the FY 2021 Operating and Capital Budgets. The budget that will be presented to City Council will be considered a "working budget" meaning that it will change as events related to the coronavirus pandemic continue to unfold.

Since the Water Department is an Enterprise Fund, will it be impacted similarly to the general funded agencies in terms of personnel cost cutting?

- Yes.

Ms. Nicole Dennis discussed the FY 2021 Operating Budget.

Can staff confirm whether there is two million or ten million in debt service?

- The correct number is two million.

Can staff describe why the estimated actuals, when compared to the FY 2021 Proposed, are increasing year over year?

- Personnel expenses are entered by Finance and include any negotiated salary increases, benefit increases, and vacant positions budgeted at the top step.
- In addition, budget analytics, being prepared for the June meeting, will provide more detail on each section, which will help to show the reasons behind the increases. For example, Water Conservation Section's expenditures have increased due to programmatic changes: further implementation of the Water Conservation Master Plan; expansion of work with PG&E on water-saving programs for low-income households; and updating the Water Shortage Contingency Plan.

Ms. Heidi Luckenbach and Malissa Kaping discussed the FY 2021 Capital Budget.

Is there a viable opportunity to further spread out the work in a way that will be less burdensome to rate payers?

- In developing and prioritizing the CIP, the Department is constantly assessing the needs of the water system, the line up of projects, the organization's capacity to get the work done and the community's capacity to financially support the work.

Mr. Kevin Crossley commented that staff has made extensive efforts to spread out the cost of the projects over the years to avoid high spending during any single year.

Ms. Menard commented that the Department has sought and continues to seek out other funding sources, such as low-interest loans and grants to lessen the cost to rate payers.

How would \$100 million of borrowed debt money affect water rates?

- We can analyze this, but it would have to be evaluated on a year by year basis.

Ms. Malissa Kaping commented that grants for the Carbonera Tank Access Road and the Brackney Landslide have been awarded and are being used to pay for these smaller, but important projects .

Mr. Dave Culver discussed the Pro Forma.

Using our current revenue structure, can we determine what water rates will be by year 2030 and how they will affect equality?

- We do not know where rates will be by 2030.

Is there a possibility of earning more than 1% on our various fund balances?

- The City Finance Director manages this portfolio in accordance with state law.

What are the implications of missing the debt coverage targets and are there plans to address any shortcomings?

- If those Long Range Financial Plan financial metrics are not met, the first approach would be to cut expenditures so that they can be met. If they are not met, it raises the cost of borrowing money. It should be noted, however that the City's bond covenants require that at a minimum we maintain a 1.1X debt service coverage ratio (DSCR). If our DSCR falls below 1.1X we are in breach of our bond covenants. Our LRFP target of DSCR at 1.5x provides a substantial cushion above those covenants.

Why are the projected project expenditures in the Pro Forma and the Capital budget different?

- The Pro Forma contains projected spending where the Capital Budget contains the additional appropriation needed for FY 2021. As a result, the Pro Forma includes projected carry-forward or unspent funds from FY 2020 plus the Capital Budget amounts. Staff continues to work to close the gap between the Capital Budget requested amounts and the actual spend in a given year.

No public comments were received.

Commissioner Wilshusen moved the staff recommendation on item 7. Commissioner Wadlow seconded.

VOICE VOTE: MOTION CARRIED

AYES: All

NOES: None

ABSTAIN: None

Subcommittee/Advisory Body Oral Reports

8. Santa Cruz Mid-County Groundwater Agency

The MGA has not met since March and the next meeting will take place in June where the next fiscal year budget will be adopted.

9. Santa Margarita Groundwater Agency (GSA)

There have been two meetings since late March and GSA is now working on groundwater quality levels as part of its development of the basin groundwater sustainability plan. Staff and consultants are continuing to engage on the work remotely.

Director's Oral Report: Sanjay Gaur (Raftelis) will return to the June Water Commission meeting to continue the discussion of Item 6. Also at the June meeting, staff is planning to present and discuss the Graham Hill Water Treatment Plant Facility Improvement Plan. Data collection on revenues since the beginning of the coronavirus pandemic has begun and will continue to be analyzed as more information comes in.

Adjournment Meeting adjourned at 10:09 PM.

Respectfully submitted,

Katy Fitzgerald, Staff

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WATER COMMISSION
INFORMATION REPORT

DATE: 5/27/2020

AGENDA OF: June 1, 2020
TO: Water Commission
FROM: Nicole Dennis, Finance Manager (acting)
Malissa Kaping, Management Analyst
SUBJECT: FY 2020 3rd Quarter Financial Report

RECOMMENDATION: That the Water Commission accept the FY 2020 3rd Quarter Financial Report.

BACKGROUND: On June 6, 2016, the Water Commission approved the Water Department's Long Range Financial Plan (LRFP) which created a framework to ensure financial stability and maintain the credit rating needed to debt finance major capital investments planned for the utility. The LRFP includes financial targets for debt service coverage ratio (1.5x), a combined 180 days cash on hand, \$3.1 million in an Emergency Reserve, and a \$10.0 million Rate Stabilization reserve.

The data in the Quarterly Financial Reports provides a snapshot in time. The City operates on a fiscal year basis and allows transactions to post to any period of the year until the books are formally closed after June 30th.

In 2019, an ad hoc sub-committee of the Water Commission and Water Department staff worked together to update the quarterly financial report developed a few years ago. The members of the Water Commission ad hoc subcommittee were Linda Wilshusen, Sierra Ryan and James Mekis. The purpose of the update was to provide a clearer picture of financial trends and results to the Water Commission. By conveying better information we are able to show success, identify problem areas and provide information to demonstrate that appropriate responses are being implemented.

DISCUSSION: The attached financial report presents the Department's fiscal outlook through the third quarter of FY 2020 and is a snapshot of the transactions posted by 3-31-20. Page 1 is focused on the Operating budget and Page 2 reflects the Capital budget. Noteworthy items are discussed on the following pages.

Operating Revenues

Water sales billings are approximately \$28 million through the third quarter of FY 2020, which is 7% below what was projected for this period. The Department is forecasting water consumption based on 2.4 billion gallons of consumption. Through the third quarter, consumption is 2,326,000 CCF compared to the third quarter totals of 2,390,000 CCF in FY 2019 and 2,489,000 CCF in FY 2018.

In December 2019, the Department issued \$26.2 million in Green Bonds secured by water rate revenues. A portion of the bond proceeds (\$10.5 million) were used to retire the Line of Credit and the balance is reflected in the Cash section of the report in the Year-to-Date (YTD) Balance amount for Fund 711 Enterprise Operations. As a result, the Days Cash Ratio for our cash reserve funds, Water Operating Fund (Fund 711) and 90-Days Cash Reserve Fund (Fund 716), is 254 days.

Staff is closely monitor water sales to discern impacts from the COVID-19 pandemic. Staff has begun to see impacts in revenue from Governor's Shelter-in-Place order based on April billings which are collect in May. Impacts will be reflected in the 4th Quarter report.

Operating Expenses

Operating expenditures in the second and third quarters track 21% below the YTD budget. In the third quarter, expenditures were reduced based on implementation of the FY 2020 Mid-Year budget. Changes included increases to: overtime for additional Lab sampling, temporary help for replacing failing metering infrastructure and resources to support the implementation of the SB998 Water Shut-off Protection Act. In addition, personnel changes were also made with no net increase in FTEs and negligible cost increases: a vacant 1.0 FTE Associate Professional Engineer was deleted and a 1.0 Associate Planner II was added to better address the environmental planning workload associated with the CIP. The Water Conservation Manager position will be deleted as part of the FY 2021 budget and a 1.0 Principal Planner position was added. The Principal Planner classification better matches the duties and system wide studies performed by the incumbent (Urban Water Management Plan, Water Shortage Contingency Plan, etc.).

These modest increases were more than offset by the transfer of the Meter Replacement program from the operating budget to the CIP and the inclusion of \$1.2 million in intrafund labor credits which were omitted from the FY 2020 Approved Budget. Intrafund labor credits are the mechanism used to reimburse the operating budget for staff time dedicated to CIP projects. Staff from Engineering, Production, Distribution and the Meter Shop charge the portion of their time worked on a specific CIP project. While the practice of charging staff time to projects occurred in FY 2019, FY 2020 is the first year these amounts have been budgeted and the practice will continue in FY 2021.

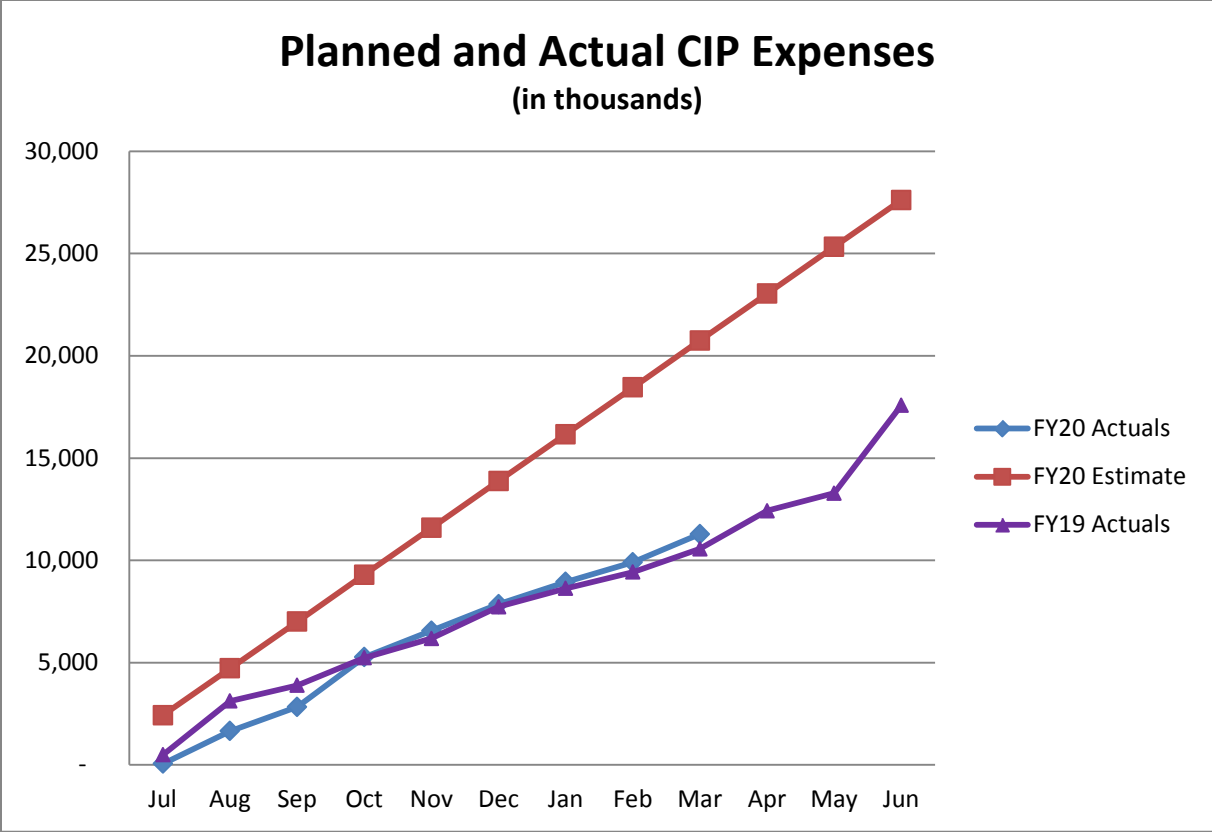
CIP Budget

We continue to improve the information provided regarding CIP project costs. The 1st Quarter FY20 project totals were estimated costs through FY28. For the 2nd Quarter FY20 report, we finished the work to extend project schedules and cost estimates through FY38. For the 3rd Quarter FY20 report, project estimates were updated with known costs after actual bids received or with updated cost estimates received with further design development.

A few project estimates decreased as the projects continued further along in construction and actual costs were below estimates and contingency could be reduced. The total project costs increased by \$37.5M between the 2nd and 3rd Quarter reports due to the following:

- Total project estimates for the Newell Creek Dam Inlet/Outlet Replacement project increased by \$21.4M after bids were received and contracts for construction support services were finalized. Estimates for contingency and escalation were also increased accordingly and contribute to the jump in estimated costs.
- The supply augmentation projects were split to account for the step-wise approach being taken to implement supply projects. This allows us to budget more precisely for second tier projects and broadly for third tier projects. When ASR was split between the new projects, the change shows an \$8.3M increase. As supply augmentation plans develop, it will become clearer how much actual funding will be needed for ASR new wells and pipelines.
- Total project estimates for the GHWTP Concrete Tanks project increased by \$5.3M after a value engineering process was completed at the 75% design stage.
- Total project estimates for the GHWTP Facility Improvement Project increased by \$2.4M as planning work continues.
- The total costs for the Coast Pump Station 20" Raw Water Pipeline project increased by \$1.8M after bids came in March.
- Many projects total costs were reduced. U5 reduced by \$820K as construction wraps-up, Laguna Diversion reduced by \$670K as designs continue to develop, Flocculators reduced by \$550K after bids received, Tube Settlers reduced by \$110K as construction wraps-up, and the Newell Creek pipeline projects combined reduced by \$100K as plans develop.

The chart below, comparing planned, actual and projected expenses, has been showing current spending forecasts indicating these lines will come closer together at the fiscal year end.



As we enter the final month of FY20, we do expect additional changes in project totals to appear in the 4th Quarter report. The total project estimates in the 3rd Quarter report are un-escalated dollars, with the exception of the Newell Creek Dam Inlet/Outlet Replacement project. We are still working to identify the best methodology for escalating costs. The project totals in the 4th Quarter report may include escalated dollars.

Some impacts of the COVID-19 shelter in place orders may also appear in the 4th Quarter report. We've received reports that market conditions may result in lower bids; however, it is difficult to project the impact at this time.

FISCAL IMPACT: None.

PROPOSED MOTION: Motion that the Water Commission to accept the FY 2020 3rd Quarter Financial Reports.

ATTACHMENT: 3rd Quarter Financial Report

SANTA CRUZ WATER DEPARTMENT FINANCIAL REPORT

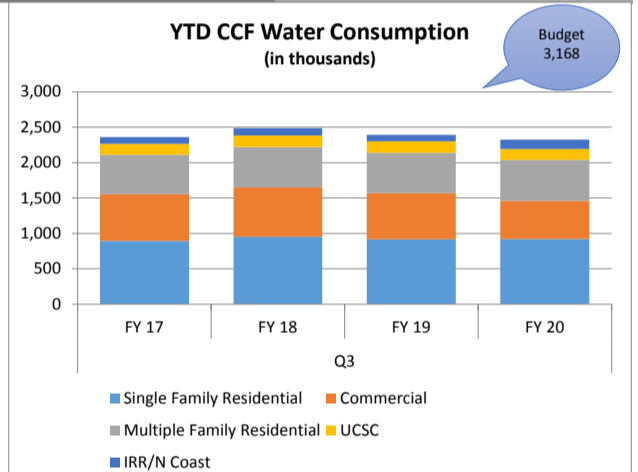
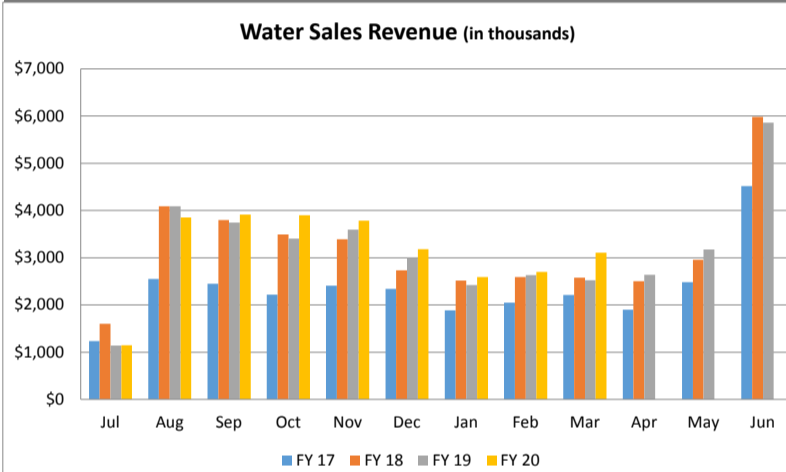
Fiscal Year 2019/20 through March 31, 2020



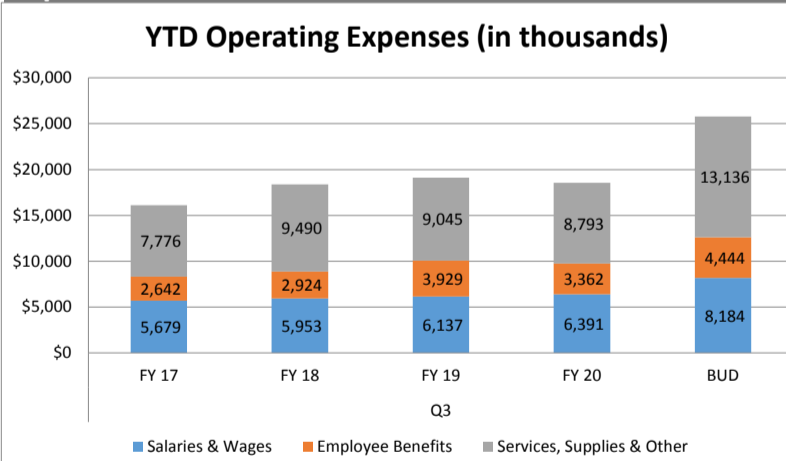
Financial Summary

	FY 2020 Adjusted			Actual vs. YTD Budget	
	Budget	YTD Budget	Actual	Variance \$ +/-	Variance % +/-
Operating Revenues					
Water Sales	40,484,000	30,363,000	28,253,666	(2,109,334)	(7%)
Other Charges for Services	1,273,268	954,951	966,559	11,608	1%
Other Revenues	385,353	289,015	165,828	(123,187)	(43%)
Investment Earnings	225,240	168,930	61,660	(107,270)	(63%)
Total Operating Revenues	42,367,861	31,775,896	29,447,713	(2,328,183)	(7%)
Operating Expenses					
Salaries & Wages	9,712,454	7,284,341	6,390,983	(893,358)	(12%)
Employee Benefits	5,924,882	4,443,662	3,362,190	(1,081,472)	(24%)
Services, Supplies & Other	15,534,059	11,650,544	8,792,768	(2,857,776)	(25%)
Capital Outlay	775,246	581,435	300,941	(280,494)	(48%)
Debt Service - Principal & Interest	2,542,786	1,907,090	665,821	(1,241,269)	(65%)
Total Operating Expenses	31,946,641	23,959,981	18,846,882	(5,113,099)	(21%)
Net Operating Revenue (Loss)	10,421,220	7,815,915	10,600,831	2,784,916	36%
Debt Service Coverage (Target >= 1.50x)	4.10x	4.10x	15.92x		

Revenues



Expenses



Cash

Fund Balances	YTD Balance	Year End
711 - Enterprise Operations	15,510,637	8,470,000
713 - Rate Stabilization	10,783,492	10,000,000
715 - System Development Charges	4,187,249	N/A
716 - 90 Day Operating Reserve	6,732,810	8,470,000
717 - Emergency Reserve	3,136,756	3,100,000
718 - Mount Herman June Beetle Endowment	143,611	144,000
719 - Equipment Replacement	702,115	700,000
Days' Cash (Includes only Funds 711 & 716)	254.1	193.5
Days' Cash Target	180.0	180.0

Project Titles	Life of Project Totals		Current FY Totals		Current Status
	Est Project Costs FY19 - FY38	Actuals + Enc thru 3/31/20	FY20 Estimated Expenditures ⁽¹⁾	Actuals + Enc thru 3/31/20	
WATER SUPPLY RESILIENCY & CLIMATE ADAPTATION PROJECTS					
<i>Water Supply Augmentation Strategy</i>					
Beltz Wellfield Aquifer Storage and Recovery					
ASR Planning	1,423,751	3,304,652	1,154,751	1,829,030	Planning
ASR Mid County Existing Infrastructure	2,425,000	-	-	-	Planning
ASR Mid County New Wells	16,580,000	-	-	-	Not Initiated
Santa Margarita Aquifer Storage and Recovery and In Lieu Water Transfers and Exchanges					
ASR Santa Margarita Groundwater	15,715,000	-	-	-	Not Initiated
ASR New Pipelines	28,580,000	-	-	-	Not Initiated
In Lieu Transfers and Exchanges	-	-	-	-	Planning
Studies, Recycled Water, Climate Change, Aquifer Storage and Recovery					
Water Supply Augmentation	720,000	443,972	120,000	163,570	Planning
Recycled Water Feasibility Study	350,000	565,689	90,000	14,442	Planning
River Bank Filtration Study	5,537,000	731,849	235,000	442,193	Planning
<i>Subtotal Water Supply Augmentation Strategy</i>	71,330,751	5,046,162	1,599,751	2,449,235	
<i>Subtotal Water Supply Resiliency and Climate Adaptation Projects</i>	71,330,751	5,046,162	1,599,751	2,449,235	
INFRASTRUCTURE RESILIENCY AND CLIMATE ADAPTATION					
<i>Raw Water Storage Projects</i>					
NCD I/O Replacement Project	105,000,000	8,987,776	5,029,273	1,896,832	Design
Aerators at Loch Lomond	550,000	30,363	134,775	21,775	Design
<i>Subtotal Raw Water Storage Projects</i>	105,550,000	9,018,139	5,164,048	1,918,607	
<i>Raw Water Diversion and Groundwater System Projects</i>					
Laguna Creek Diversion Retrofit	3,122,000	836,727	639,500	730,953	Design
North Coast System Majors Diversion Rehab	4,123,500	118,508	-	6,937	On-hold
Tait Diversion Rehab/Replacement	5,212,500	337,540	150,047	241,586	PD/Feasibility
Coast Pump Station Rehab/Replacement	7,304,000	-	-	-	Planning
Beltz 10 and 11 Rehab & Development	285,000	184,955	2,810	2,810	Planning
Felton Diversion PS Assessment	3,444,000	124,178	107,000	91,511	Planning
<i>Subtotal Raw Water Diversion and Groundwater System Projects</i>	23,491,000	1,601,908	899,357	1,073,797	
<i>Raw Water Transmission</i>					
Coast Pump Station 20-inch RW Pipeline Replacement	6,566,863	879,162	3,376,940	275,731	Design
Newell Creek Pipeline Rehab/Replacement	1,022,000	734,596	507,600	128,681	Planning
Newell Creek Pipeline Felton/GHWTP	28,310,500	-	122,667	-	Planning
Newell Creek Pipeline Felton/Loch Lomond	24,056,500	-	-	-	Planning
Brackney Landslide Area Pipeline Risk Reduction	5,076,000	-	101,750	-	Planning
North Coast Pipeline Repair/Replacement - Planning	838,000	195,119	-	-	Planning
North Coast Pipeline Repair/Replacement - Ph 4	14,578,000	-	-	-	Not Initiated
North Coast Pipeline Repair/Replacement - Ph 5	14,578,000	-	-	-	Not Initiated
<i>Subtotal Raw Water Transmission</i>	95,025,863	1,808,877	4,108,957	404,412	
<i>Surface Water Treatment</i>					
GHWTP Tube Settler Replacement	1,499,268	1,710,647	1,063,500	1,489,993	Post Construction
GHWTP Flocculator Rehab/Replacement	1,847,000	1,318,500	640,000	1,197,803	Construction
GHWTP Concrete Tanks Replacement	44,000,000	4,596,754	1,016,500	1,846,406	Design
GHWTP Facilities Improvement Project	96,025,000	2,898,996	1,087,430	566,348	Planning
GHWTP Filter Rehab and Upgrades	5,837,300	5,837,026	18,000	18,000	Post Construction
Source Water Data Project ⁽²⁾	657,068	465,536	27,500	27,486	Ongoing
<i>Subtotal Surface Water Treatment</i>	149,865,636	16,827,459	3,852,930	5,146,036	
<i>Distribution System Storage, Water Main and Pressure Regulation, and Metering Projects</i>					
University Tank No. 4 Rehab/Replacement	5,691,000	36,881	32,000	-	Planning
University Tank No. 5 Rehab/Replacement	3,581,000	4,260,359	1,512,000	1,872,580	Post Construction
Pressure Regulating Stations	140,000	181,943	50,500	50,508	Ongoing
Meter Replacement Project	11,000,000	303,039	350,500	138,841	Ongoing
Engineering and Distribution Main Replacement Projects	16,810,000	18,875,499	4,940,000	4,805,535	Ongoing
Distribution System Water Quality Improvements	75,000	75,347	75,347	75,347	Planning
Facility & Infrastructure Improvements	6,800,000	-	-	-	Ongoing
Bay Street Reservoir	25,375,072	25,279,300	150,000	9,500	Post Construction
<i>Subtotal Distribution Storage, Wmain Pressure Reg, and Metering</i>	69,472,072	49,012,368	7,110,347	6,952,311	
<i>Subtotal Infrastructure Resiliency and Climate Adaptation</i>	443,404,571	78,268,751	21,135,639	15,495,163	
OTHER RISK MANAGEMENT AND RISK REDUCTION PROJECTS					
<i>Site Safety and Security</i>					
Security Camera & Building Access Upgrades	360,000	208,681	93,185	31,685	Ongoing
Programmable Logic Controllers	160,000	186,956	50,000	31,382	Ongoing
Loch Lomond Facility Improvements	225,000	234,460	72,000	71,802	Post Constr
Spoils and Stockpile Handling	350,000	253,022	3,013	3,013	Post Constr
Newell Creek Access Rd Bridge	1,015,000	320,343	248,159	248,159	Post Constr
Carbonera Tank Rd	488,000	481,497	357,622	357,622	Post Constr
<i>Subtotal Site Safety and Security</i>	2,598,000	1,684,959	823,978	743,663	
<i>Staff Augmentation</i>					
Water Program Administration ⁽³⁾	25,000,000	3,532,701	3,500,000	3,532,701	Ongoing
<i>Subtotal Staff Augmentation</i>	25,000,000	3,532,701	3,500,000	3,532,701	
<i>Contingency</i>					
Management Reserve ⁽⁴⁾	50,000,000	-	2,057,000	-	Ongoing
<i>Subtotal Contingency</i>	50,000,000	0	2,057,000	0	
<i>Storage for Emergency Facility and System Repair Tools and Equipment</i>					
Bay Street Reservoir Storage Building	150,000	-	-	-	Design
Union/Locust Admin Building Back Up Power Generator	150,000	-	-	-	Not Initiated
<i>Subtotal Storage for Emergency and System Repair</i>	300,000	0	0	0	
<i>Subtotal Other Risk Management and Risk Reduction Projects</i>	77,898,000	5,217,660	6,380,978	4,276,364	
GRAND TOTAL	592,633,322	88,532,573	29,116,368	22,220,762	

⁽¹⁾ Planned expenditures do not include purchase order encumbrances.

⁽²⁾ Expenses for the Source Water Data Project will be moved to the operating budget.

⁽³⁾ Staff augmentation costs are transferred to specific projects during year-end process.

⁽⁴⁾ FY20 Management Reserve costs are included in Water Program Administration.



WATER COMMISSION
INFORMATION REPORT

DATE: 5/27/2020

AGENDA OF: June 1, 2020

TO: Water Commission

FROM: Rosemary Menard

SUBJECT: Updated Working Draft, Water Commission Calendar Year 2020 Work Plan

RECOMMENDATION: That the Water Commission accept an updated working draft of the Water Commission's 2020 Work Plan

BACKGROUND: To assist staff and Water Commissioners with planning and scheduling items for Water Commission review, the Water Director prepares an updates a working draft of an annual work plan. The work plan is useful in managing the work load and helps to keep the meeting content reasonable for everyone.

DISCUSSION: The attached working draft of the 2020 work plan has been updated with a focus on Water Commission work items for the June, July and August meetings. A number of work plan items on previous work plan drafts have been deleted as work plan items for those months and also for the fall and winter months. Most notable of these deleted items are those related to proceeding with developing water rates.

As hinted at during the May 4th meeting, Water Department staff has been assessing the planned rate development work plan in light of the significant uncertainties introduced by the COVID-19 pandemic. At the moment, the plan is to continue the work through the completion of the cost of service analysis, which uses a base year to establish the costing of various elements of the services delivered. The plan is to present and discuss this work with the Water Commission at its August 24th meeting. At that time the Department will have some greater information about the future, even if that information is that there is going to continue to be significant uncertainty for the foreseeable future. The work plan for the rates will be further developed closer to the fall and will be shared as it develops.

One other change in this version of the work plan compared to the last version is the deletion to dates for the Water Commission's receiving information on an updated long term demand forecast. We're currently completing the interview phase for the Department's new Principal Planner position. This position will be taking on an expanded role beyond the Conservation

Manager role held by Toby Goddard that the new position is replacing, and will be responsible for the development of the updated Urban Water Management Plan. A new demand forecast is part of that effort. I've removed references to a new demand forecast, because I want to wait to consult with the new person in the job about how the various tasks are going to be completed. Once that coordination has occurred, items will be added back to the Water Commission work plan as appropriate.

FISCAL IMPACT: None

PROPOSED MOTION: Motion to accept an updated working draft of the Water Commission's 2020 Work Plan

ATTACHMENTS:

5-20-2020 Working Draft Water Commission 2020 Work Plan

WORKING DRAFT

Water Commission Work Plan – May 2020 Update

(5/21/2020)

Major Water Commission Work Plan Item	Anticipated City Council Action on Water Commission Recommendations
June 1, 2020	
➤ Water Commission Water Pricing Objectives – Part 2	
➤ Final Action on FY 2021 Operating and Capital Budgets and Water Commission recommendation to Council	➤ City Council Action on FY 2020 Budget June 23, 2020
➤ Briefing on Graham Hill Water Treatment Plant Facility Improvement Project (FIP) and progressive design build procurement	➤ Council action to initiate progressive design build for FIP, June 23, 2020
➤ 3 rd Quarter FY2019 Financial Report (Jan – Mar 2020) – Consent	
➤ HDR Service Order 6 – Consent	
July 6, 2020	
➤ Quarterly Update on WSAS	
➤ Meter replacement program	
➤ Analysis of probability and size of future water shortages	
➤ Water Shortage Contingency Plan demand reduction strategy	
August 24, 2020	
➤ Raftelis Presentation – Cost of Service Analysis Results <ul style="list-style-type: none"> ○ Base Year Cost Functionalization ○ Peaking Factors ○ Inside/Outside ○ Pump Zones ○ Wholesale Water Transfers 	
➤ System Development Charges	
➤ Loch Lomond updated bathymetry, planned dredging and silt curtain	
➤ Approve Water Shortage Contingency Plan	
September 7, 2020 CANCELLED	
October 5, 2020	
➤ Quarterly Update on WSAS	
➤ 4 th Quarter FY2020 Financial Report	➤ October 13 -- 2020 Water Shortage Contingency Plan Council Action
November 2, 2020	
➤	➤
December 7, 2020	
➤	➤
January 4, 2021	
➤	➤
February 1, 2021	
➤	➤
March 1, 2021	
➤	➤
April 5, 2021	
➤	➤



WATER COMMISSION
INFORMATION REPORT

DATE: 5/27/2020

AGENDA OF: June 1, 2020
TO: Water Commission
FROM: Kevin Crossley, Senior Engineer
SUBJECT: Santa Cruz Water Program Update

RECOMMENDATION: Receive information on the progress of the Santa Cruz Water Program and planned activities for Fiscal Year 2021.

BACKGROUND: In December 2017, the Water Department initiated a multi-year contract with HDR, Inc. for program management services. As program manager, HDR, Inc. supports Water Department staff to execute or otherwise facilitate the planning, design, and construction of the Department's Capital Investment Program (CIP), the Santa Cruz Water Program (Program). Significant portions of the water system's diversion, transmission, and treatment infrastructure is approaching the end of its service life and will require major upgrades or replacement over the next decade. In that same timeframe, the Department is on track to select and construct a supplemental water supply project as per the Water Supply Augmentation Strategy. The confluence of aging infrastructure and the need for new supply results in a 10-year CIP of approximately \$500 million in today's dollars.

The Department has very capable, but relatively small engineering and operations groups who are not staffed to deliver this magnitude of capital work. A program management approach provides access to the right expertise at the right time to assist with the highly varied technical and managerial requirements and needs of delivering a complex, diverse infrastructure program.

DISCUSSION: Fiscal Year 2020 was a year of changing project phases. Several projects finished planning and shifted into design, or finished design and migrated into construction. These transitions represent significant progress towards implementation of a significant set of projects that will enhance the resiliency of the water system and ensure continued reliable delivery of high-quality water.

Planning: Planning work was completed on the Newell Creek Pipeline and Graham Hill Water Treatment Plant Facility Improvement Projects. The respective planning studies compiled important content such as completing asset condition assessments, generating a range of

replacement and rehabilitation alternatives, revised cost estimates and proposed delivery methods. The completed planning studies will form the foundation for subsequent design work in the coming year, as well as provide the necessary project definition to support applications for State and Federal funding. Further work is planned in Fiscal Year 2021 to evaluate a subset of recycled water supply alternatives, pilot testing another well for aquifer storage and recovery purposes, and further water supply modeling to understand the effects of climate change on supply reliability.

Design: Design was completed on three important projects, the Graham Hill Water Treatment Plant Concrete Tanks, the Coast Pump Station 20" Raw Water Pipe Replacement Project, and the Newell Creek Dam Inlet/Outlet Replacement Project. The estimated construction value of these three projects is over \$100 Million.

Construction: Two program projects completed construction over the last year-the Tube Settler Replacement Project, and University 5 Tank No. Replacement Project. These projects will improve treatment plant reliability, improve seismic resiliency, and enhance water quality.

Environmental: On the environmental planning, permitting and restoration front, work was initiated and will continue through next year on a programmatic Environmental Impact Report for the Newell Creek Pipeline and Environmental Impact Report has started for the Graham Hill Water Treatment Facility Improvement Plan. Dudek, a local environmental consulting firm was selected to provide on-call environmental services for a package of six projects, and Ecological Concerns Inc. a local landscaping contractor, was awarded a contract for program-wide cultivation and restoration planting services.

Safety: Program safety continues to be a top priority. As of the end of May 2020, over 50,000 estimated hours were worked, zero safety incidents requiring medical treatment, and one incident requiring first-aid. A program-wide construction safety consultant has been selected, and in the coming year will provide monthly audits of construction site safety.

A more detailed summary of recent accomplishments and planned work for 2021 is provided in Attachment 1: Fiscal Year 2021 Annual Work Plan. Like the previous work plan presented to the Commission in June of last year, the 2021 Annual Work Plan provides a summary of the projects, resources, and planned activities over the next year, as well as a summary program schedule and the program management fee-which is a working draft as of the date of this staff report, and will continue to be refined and finalized between now and council approval.

The 2021 Annual Work Plan and Service Order 6 (which is the detailed scope of work) are scheduled to go to City Council on June 23, 2020.

FISCAL IMPACT: None.

PROPOSED MOTION: Receive information on the progress of the Santa Cruz Water Program and planned activities for Fiscal Year 2021.

ATTACHMENT(S) Attachment 1: Fiscal Year 2021-Annual Work Plan

Fiscal Year 2021-Annual Work Plan

Santa Cruz Water Program



Introduction

The City of Santa Cruz’s Water Department is implementing the Santa Cruz Water Program (Program) to address a number of critical needs for backbone infrastructure rehabilitation or replacement and to develop supplemental supply that would improve the reliability of the Santa Cruz water system. In the fall of 2017, the Water Department selected HDR to provide program management services to support implementation of the Program, and in December 2017, The City Council approved a five year Master Services Agreement that is the basis for developing specific task or service orders. This Annual Work Plan (AWP) summarizes Service Order 6 and covers HDR’s anticipated program management activities, staffing, schedule, and fees in fiscal year 2021 (FY 2021), which covers the period of July 1, 2020 to June 30, 2021.

Overview of Work Performed during FY 2020

Over the past fiscal year, the Program team of city and HDR staff engaged in Program implementation in the areas of design and planning project management, program administration and controls, planning and preliminary engineering, construction management, and other program support areas such as environmental and right of way services. Table 1 summarizes the Program wide, and project level activities for fiscal year 2020.

Table 1 –Project Work Completed (Fiscal Year 2020)

No.	Projects	Phase	Key Work Completed
1.1	Laguna Creek Diversion Retrofit	Design	<ul style="list-style-type: none"> Design firm procurement 10% Conceptual Design 30% Design 60% Design CEQA Notice of Preparation of EIR
1.3.1	Tait Diversion Rehab / Replacement Project	Planning	<ul style="list-style-type: none"> Planning firm procurement Project definition Alternatives analysis for screening and fish passage
1.4	Felton Diversion and Pump Station Assessment	Planning	<ul style="list-style-type: none"> Surge Analysis Report finalization
1.5	Newell Creek Dam Inlet/Outlet Replacement Project	Design, Construction	<ul style="list-style-type: none"> 100% Design Authorization to Bid and Award Contractor Prequalification and Bid Phase Funding planning: SRF and WIFIA loans Construction NTP, Mobilization Obtained Key Permits/Approvals (Division of Safety of Dams Division of Drinking of Water, Army Corp, CA Fish and Wildlife)
1.5.1	Newell Creek Dam - Electric Gate	Construction	<ul style="list-style-type: none"> Construction COMPLETE
2.2	Newell Creek Pipeline Rehab/ Replacement	Planning	<ul style="list-style-type: none"> Finalized Newell Creek Pipeline Improvements Report Funding planning: SRF and WIFIA loans Initiated CEQA process, retained consultant
2.2.1	Newell Creek Pipeline Felton/Graham Hill	Design	<ul style="list-style-type: none"> Project Definition Initiation of Design firm procurement

No.	Projects	Phase	Key Work Completed
2.2.3	Brackney Landslide Area Pipeline Risk Reduction	Design	<ul style="list-style-type: none"> Project Definition Initiation of Design firm procurement
2.3	Coast Pump Station Raw Water Pipeline Replacement	Design, Construction	<ul style="list-style-type: none"> Constructability review 100% Design Authorization to Bid and Award Contractor Bid Phase Construction NTP and Mobilization Initial Study and Mitigated Negative Declaration Obtain 1602 Lake and Stream Bed Alt. Permit, completed tribal consultation under Assembly Bill 52, and executed monitoring agreement with the Amah Mutsun Land Trust
3.1	Water Supply Augmentation	Planning	<ul style="list-style-type: none"> In lieu water transfer pilot testing Progressed approach for supply planning, including demand re-assessment and phasing of ASR planning by basin (Mid County and Santa Margarita). Progressed development of Phase two of recycled water study
3.2	Recycled Water Feasibility Study	Planning	<ul style="list-style-type: none"> Initiated Phase 2 contract
3.3	ASR Planning	Planning	<ul style="list-style-type: none"> Pilot testing at Beltz 12 wells Pilot testing at Beltz 8 wells Conceptual planning for pipeline infrastructure (Santa Margarita Groundwater Basin) Split ASR implementation into multiple sub-projects (3.3.1 - 3.3.4)
3.6	In-Lieu Transfers & Exchanges	Operation	<ul style="list-style-type: none"> Transferred 33 Million Gallons to Soquel Ck Water District- Transfers were discontinued in January 2020 due to dry conditions.
4.1	Graham Hill WTP Tube Settlers Replacement	Post-Construction	<ul style="list-style-type: none"> Construction complete
4.2	Graham Hill WTP Flocculators Replacement	Construction	<ul style="list-style-type: none"> Design complete Construction 30% complete
4.3	Graham Hill WTP Concrete Tanks	Design	<ul style="list-style-type: none"> Value Engineering Constructability reviews 100% Design Contractor Prequalification Authorization to Bid and Award Funding planning: SRF and WIFIA loans
4.4	Graham Hill WTP Upgrades (Facility Improvement Plan)	Design	<ul style="list-style-type: none"> Conceptual (10%) design complete Risk workshop Delivery Method selection (Progressive Design Build) Procurement planning; Design – Builder outreach Funding: WIFIA loan application Traffic Analysis: Graham Hill Rd. at WTP entrance Soil survey
4.5	Riverbank Filtration Study	Planning	<ul style="list-style-type: none"> Continued evaluation of site suitability for RBF Hydrogeological field investigation of sites (borings, monitoring wells)
6.1	University Tank No. 4 Rehab / Replacement	Planning	<ul style="list-style-type: none"> Approved Project Definition Identified alternatives for analysis

No.	Projects	Phase	Key Work Completed
6.2	University Tank No. 5 Replacement	Post - Construction	<ul style="list-style-type: none"> Construction COMPLETE
N/A	Asset Management	Planning	<ul style="list-style-type: none"> Asset onboarding prototype Defined data requirements through database population with project information Data management tools; Users guide RFP and user requirements for CMMS
N/A	Main Replacement Model	Planning	<ul style="list-style-type: none"> Main replacement analysis Water main break data collection tools Documentation of data management procedures and opportunity condition assessment process
N/A	System – Wide SCADA Planning	Planning	<ul style="list-style-type: none"> Current System Assessment and Cybersecurity Review SCADA Communication Block Diagram SCADA Software and Programming Standards Development Instrumentation Standards Development
N/A	Distribution System Water Quality Improvements Study	Planning	<ul style="list-style-type: none"> Completed pre-study activities including alignment of results from the Distribution System Water Age assessment with historic water quality data to confirm focus areas for study. Initiated hydraulic modeling
N/A	Program Wide Items	All / Ongoing	<ul style="list-style-type: none"> Risk management: quarterly reviews; risk quantification workshop Quality Management: quarterly reviews/reports Monthly Program reporting Updates to Program Management Plan <ul style="list-style-type: none"> Cost estimating guidelines Project Cost Estimate template Change Management templates Procurement guidelines Delivery method amendment to City Charter Workforce development trainings including design standards (Instrumentation & Controls), risk management, and construction management. Program controls implementation: schedule format updates, cost management system updated, document mgt., key performance indicators (KPIs) Program safety reporting Design Review (Bluebeam) software training materials development, users manual, and initiation of implementation Supported source water data management needs assessment for Production group Contract “front end” standard template



Figure 1 – University Tank 5 Roof Construction

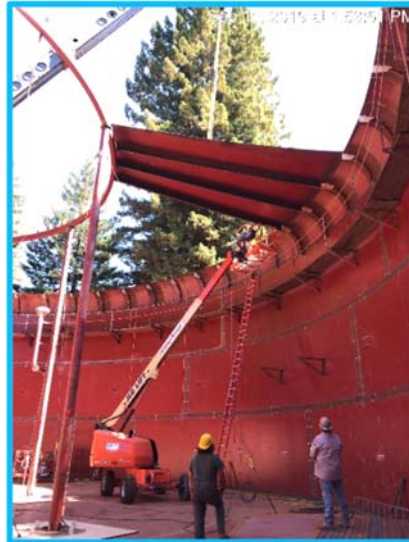


Figure 2 – University Tank 5 Stair Construction

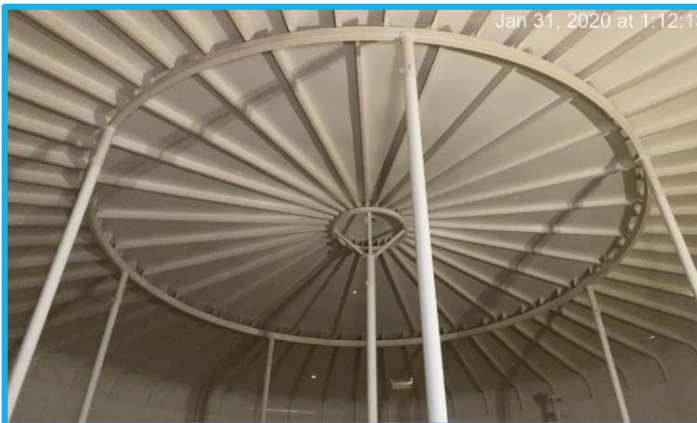


Figure 3 – University Tank 5 Interior Roof Coating



Figure 4 – University Tank 5 Final Paint



Figure 5 –Coast Pump Station Pipeline Replacement Project Pre-Bid Meeting



Figure 6 –Risk Management Training



Figure 7 – GHWTP Tube Settler Installation



Figure 8 – GHWTP Tube Settler Installation



Figure 9 – GHWTP Tube Settler Installation



Figure 10 – Riverbank Filtration Field Investigation Drilling Site



Figure 11 – Newell Creek Dam Inlet / Outlet Project Bid Opening



Figure 12 – ASR Pilot Testing at Beltz Well 8



Graham Hill Water Treatment Plant



Coast Pump Station boneyard



Riverbank Filtration drilling site.

Figure 13 – Aerial Drone Photos of Project Sites – Pre-Construction



Notification of Lake or Streambed Alteration

Coast Pump Station Raw Water Pipeline Replacement Project

Prepared for the City of Santa Cruz Water Department

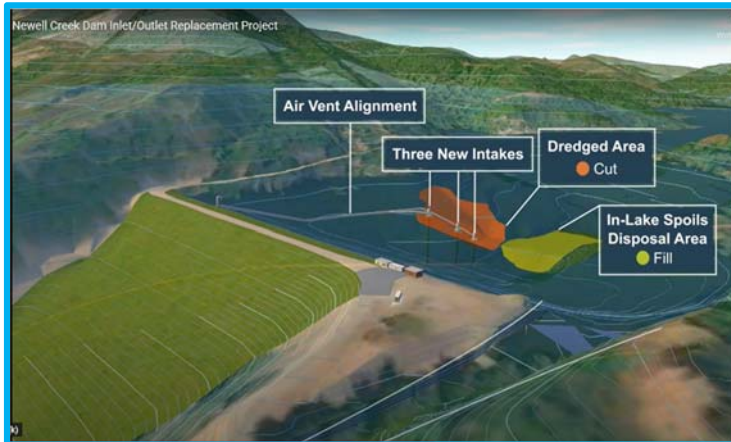
Santa Cruz, California

October 8, 2019

Figure 14 – Coast Pump Station Pipeline - Obtained 1602 Permit for Streambed Alteration



Figure 15 (left), Figure 16 (above) – Newell Creek Dam Inlet/Outlet – Images from Virtual Project Site Flyover



Newell Creek Dam Inlet/Outlet Replacement Project

Ensuring public health and safety by providing a clean, safe, reliable supply of water



Project Objectives

- Improve the City's overall operational efficiency
- Improve system performance
- Long-term reliable storage of drinking water supply
- Meet DSOD drawdown requirements
- Improve inspection and maintenance access
- Maintain uninterrupted beneficial flow releases during construction

Loch Lomond Reservoir Facts

- 2.8** Billion gallons capacity
- 17%** Supplied water demand
- 43"** Average annual rainfall

Current Deficiencies

- Inlet/outlet conduit deterioration
- Inoperable and partially closed plug valve at the toe of the dam

Tunnel & Shafts

- Approx. 1,500 feet of tunneling
- Three vertical inlets and 60-inch vertical shafts connected to tunnel via dry taps
- Up to approx. 22,600 cubic yards of spoils from tunnel and portal development

Dredging

- Approx. 23,000 to 34,000 cubic yards of submerged spoils

Constructed in approx. 120 ft of water

Operations

- Intake control building on dam crest

Access

- Construction platform
- Culvert crossing at spillway plunge pool
- Road improvements including addition of retaining walls

Outlet Structure

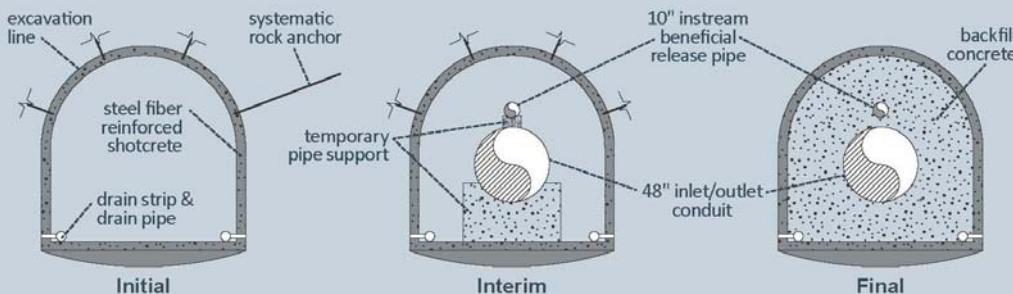
- Valves and controls
- Dam seepage collection and monitoring system
- Decommissioning of existing inlet/outlet

Pipeline

- Approx. 2,000 feet of 30-inch raw water pipeline

Tunneling Sequence Schematic

(subject to Contractor means and methods)



Excavated using conventional tunneling methods with 10-ft minimum and 14-ft maximum diameter.

Figure 17 – Newell Creek Dam Inlet/Outlet Project Summary Sheet for Contractor Outreach

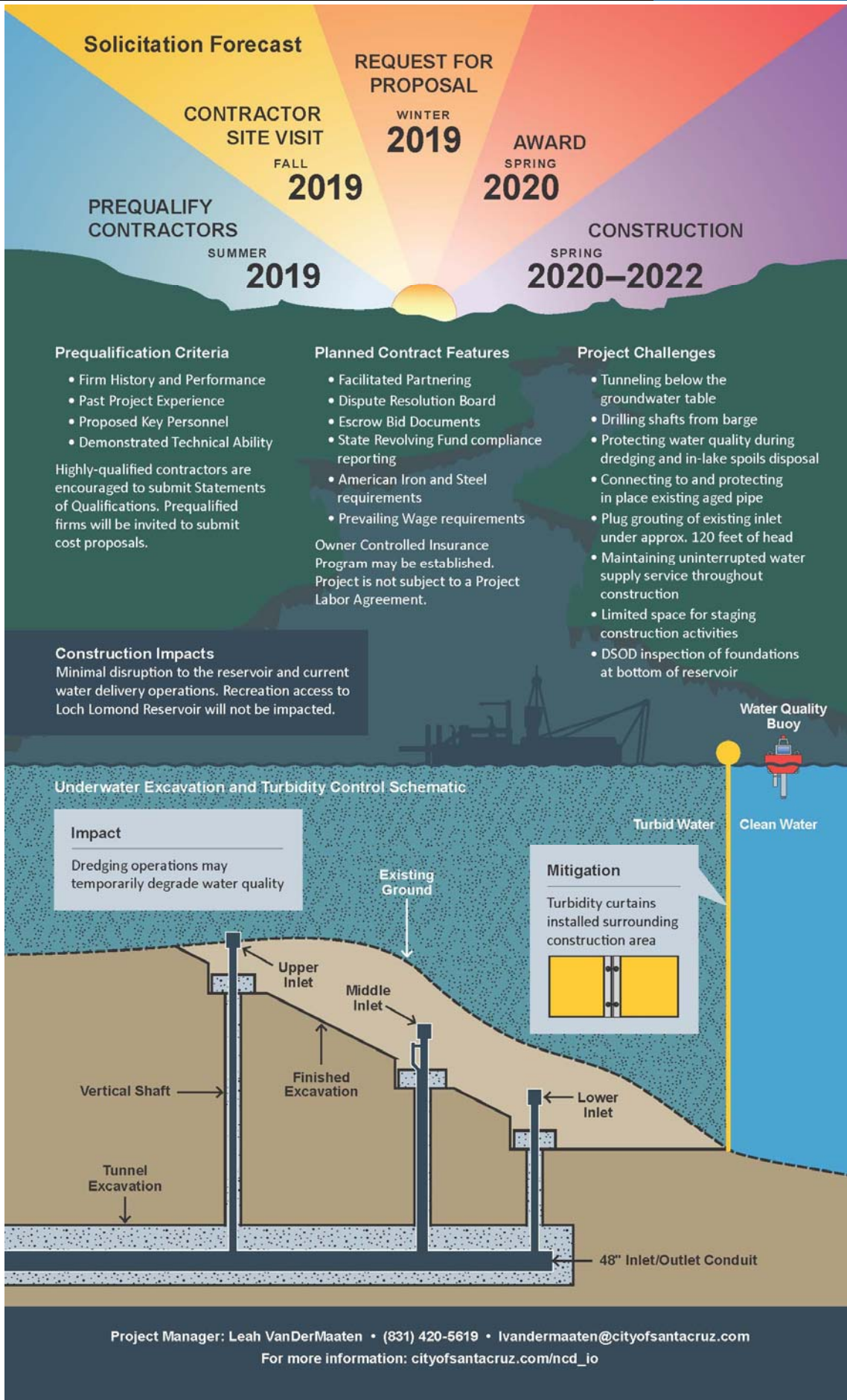


Figure 18 – Newell Creek Dam Inlet/Outlet Project Summary Sheet for Contractor Outreach

Overview of Planned Work during FY 2021

During FY 2020 of the Santa Cruz Water Program, the Program team of city and HDR staff implemented the Program Management Plan, an organizational framework with processes for managing and staffing individual capital projects that are at different stages of development. This work will be continued in FY 2021 as projects continue progress from planning to design and from design to construction and through the construction phase. Table 2 lists the Program projects starting or ongoing in FY 2021 and divides them into their current phase of work: Planning Projects, Projects in Design and Projects in Construction.

Table 2 –Program and Project Work Planned by Phase^a (Fiscal Year 2021)

Program Wide		
<ul style="list-style-type: none"> Risk management: quarterly reviews, risk model update Technical expert support and deliverable reviews Quality management implementation Design Review software implementation – ongoing support Source Water Data Management – software implementation support 	<ul style="list-style-type: none"> Program controls implementation: schedule, cost, document mgt., key performance indicators (KPIs) Monthly Program reporting Change management Department finance support Program CM Oversight Program Env'tl. Advisory General electrical staff support 	<ul style="list-style-type: none"> Workforce development trainings (regular, refresher, and extended) Asset Management (Asset Onboarding and CMMS Implementation support Main Replacement Model Data Management support Right of Way support Constructability reviews
Planning Projects	Projects in Design	Projects in Construction
1.3.1 – Tait Diversion Rehab/ Replacement 1.4 – Felton Diversion and Pump Station Assessment 2.1 – North Coast System Pipeline Repair / Replacement 3.1 – Water Supply Augmentation 3.2 – Recycled Water Feasibility Study 3.3 – Aquifer Storage & Recovery Planning (Mid County, Santa Margarita) 4.5 - River Bank Filtration Study (ongoing, complete 12/2020) 6.1 – University Tank No. 4 Rehab / Replacement 7.1 - Water Rights (ongoing) 7.2 - Habitat Conservation Plans (ongoing) N/A - Distribution System Water Quality Improvements (ongoing, complete 12/20) N/A - Program Projects Design Criteria Summary (ongoing, complete 10/20)	1.1 - Laguna Creek Diversion Retrofit 2.2.1- Newell Creek Pipeline Rehab/ Replacement (Felton/Graham Hill) 2.2.3 – Brackney Landslide Area Pipeline Risk Reduction 4.4 - Graham Hill WTP Facilities Improvement Project	1.1 - Laguna Creek Diversion Retrofit 1.5 - Newell Creek Dam Inlet/Outlet Replacement 2.3 - Coast Pump Station 20-inch Raw Water Pipeline Replacement 4.2 - Graham Hill WTP Flocculator Replacement 4.3 - Graham Hill WTP Concrete Tanks

a) Projects may be shown twice if they transition between phases, for example from design to construction.

This AWP includes a wide range of services focused on progressing each of the projects forward. Table 3 summarizes the types of services for each of the three categories of services that HDR will be providing during FY 2021 as part of Service Order 6.

Table 3 –Types of Services for each Project Phase (Fiscal Year 2021)

HDR Planning Services	HDR Design Management Services	HDR Construction Services
<ul style="list-style-type: none"> • Provide Planning lead. • Review and document existing information and identify data gaps. • Conduct planning level studies to define technical feasibility and cost. • Perform preliminary engineering, and the identification and analysis of alternatives. • Prepare reports, presentations, and briefing materials to support decision making processes and stage gate meeting approvals. • Develop implementation and sequencing plans and schedules for recommendations. • Facilitate planning meetings and workshops for Water Department Staff to discuss alternatives and coordinate with stakeholders. • Perform business case evaluations and document recommendations. • Support Water Department Staff in the development and calibration of hydraulic models. • Support Water Department Staff in the test data management integration into the laboratory information management system. • Perform infrastructure condition assessments to support planning. • Assist the Department in financial analysis associated with program funding efforts, including providing support in applying for grants and low interest loans. • Support the Department’s implementation of asset management system onboarding for capital projects. • Based on SCADA planning, prioritize future SCADA related projects and develop planning level project cost estimates. • Augment the city staff by providing PMs, and project engineers for various projects including: University 4 Tank, Felton Diversion, North Coast Pipeline System, GHWTP Facility Improvement 	<ul style="list-style-type: none"> • Provide Design Management lead. • Provide general electrical engineering and operations specialist staff augmentation support. • Support PMs in management of consultants and alignment with program reporting and processes. • Support implementation of design management and cost estimating guidelines. • Augment the City staff by providing PMs and/or project engineers for various projects including: Concrete Tanks, GHWTP Facility Improvement Project, and Newell Creek Pipeline Rehab/Replacement Projects. • Assist in hiring design consultants, reviewing consultant deliverables, conducting value engineering (VE) efforts or cost estimating, as requested. • Support ROW acquisition activities and obtaining permits-to-enter for planning (North Coast System Pipeline) and design (Newell Creek Pipeline projects (Felton/Graham Hill, Brackney)). • Provide designated environmental lead for permitting efforts associated with: Coast Pump Station Pipeline Replacement and Newell Creek Pipeline Rehab/Replacement. • Provide environmental compliance management services • Assist with other environmental technical support, including CEQA, NEPA, technical study, field surveys, or permit application. • Support Department Staff in the development and implementation of communications and community engagement plans. • Provide technical expert input as requested. • Support ongoing implementation and use of collaborative design review software on projects. 	<ul style="list-style-type: none"> • Implement Program Construction Management Guidelines • Implement Construction Management software for new construction projects. • Augment the City staff by providing PMs and/or project engineers for construction phase projects including: Newell Creek Dam Inlet/Outlet Pipeline, Concrete Tanks, and Coast Pump Station Pipeline Replacement projects. • Provide Construction Management project manager, resident engineer, document manager, lead and special inspector(s), as required, for the GHWTP Flocculator Replacement project, GHWTP Concrete Tanks Pipeline Replacement project, and the Coast Pump Station Pipeline Replacement project. • Provide post construction start-up commissioning and operations support. • Provide monthly Program reporting of CM activities. • Provide workforce development training in areas of Construction Management • Assist with environmental mitigation, monitoring and/or procurement of such services.

HDR Planning Services	HDR Design Management Services	HDR Construction Services
Project, Water Supply Augmentation, ASR and Recycled Water feasibility projects. <ul style="list-style-type: none"> • Assist in reviewing of planning consultant deliverables • Provide environmental advisory support, program-wide 		

Figure 19 shows the schedule of activities planned for each project, with work broken down into several phases: planning, design, bidding, construction and project close out.

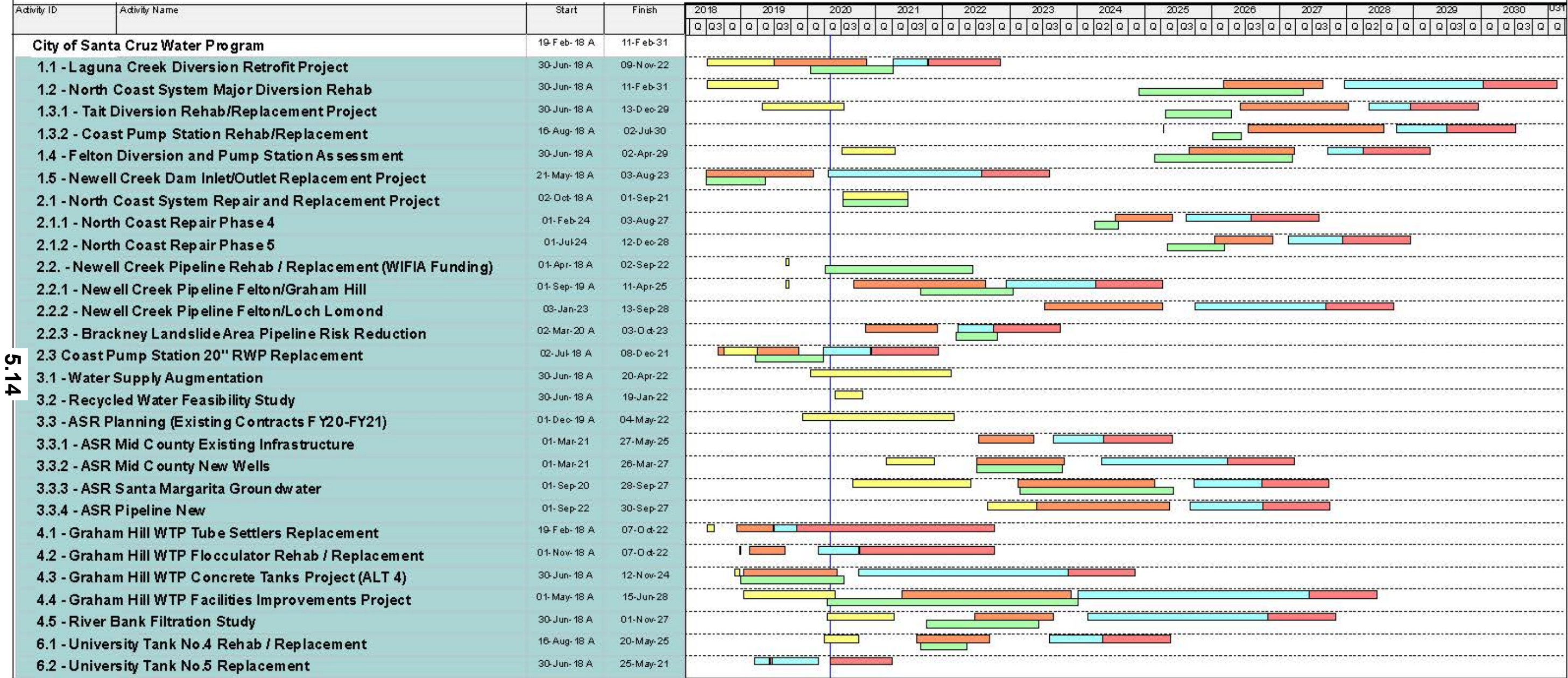
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Figure 19 – Santa Cruz Water Program Master Program Schedule

CITY of SANTA CRUZ WATER PROGRAM

Capital Improvement Projects

Level 1 - Single Line Schedule



5.14

■ Planning
 ■ Environmental
 ■ Post Construction
 Program Administration and Construction Services not Shown

Staffing

The major resources being provided through the HDR Program Management Contract involves staffing services. These services are necessary because, on average, the Water Department’s annual capital program expenditures are rising nearly five-fold over spending levels during the last decade. The Water Department’s Engineering Section currently includes around 12 full time equivalent (FTE) positions supporting the capital program in various capacities, and recruitment for one vacant Planner position, is ongoing. The staffing analysis completed in 2018 during the Program Validation effort estimated total staffing needs required to manage and support the Program projects in peak years at 20 FTEs. Staff augmentation for project management (including project managers, engineers, environmental leads, but not including program administration or construction management, for example) is estimated at 6.8 FTEs for FY21.

The staffing augmentation plan for FY21 was developed to support the implementation plans and schedules for each Program project. The staffing plan integrates the Water Department’s available staff in Engineering and Operations and Maintenance and supplements resource needs with compatible HDR staff. A key focus of both City and HDR administrative and operating personnel who are part of the Program is the consistent and efficient delivery of project from planning through construction, while maintaining the Department’s ability to produce and deliver a reliable supply of high quality drinking water to its customers throughout project construction. Achieving this goal requires ongoing planning and coordination by all members of the team.

Part of the ongoing work on the Program to date has been to identify, integrate, and maintain HDR Program team members. Table 4 identifies HDR key staff in each of the three major Service Order 6 work areas.

Table 4 – Key Staffing for Planned HDR Program Management Services (Fiscal Year 2021)

HDR Planning Services	HDR Planning and Design Management Services	HDR Construction Services
John Nelson Stephanie Shamblin – Grey Allison McReynolds Allan Scott Tom McCormack Uriel Shelby Rich Stratton Leslie Tice	Greg Bradshaw Dave Kremer Holly Burles Kevin Calderwood Lock Kwan Brian Watanabe Morgan Abbett Shane Clements Jillian Brown Ray Genato Larry Johnson Jim Hestad	Roger Hatton Mitch Kyotani Shane Clements [Construction Manager]

Ongoing Program management and administration will be led by Karen Pappas (Program Manager), Paul Karsen (Controls Manager), and Rachel Rosenblum (Scheduling). Implementation of the Santa Cruz Water Program also involves a range of ongoing administrative and quality control services including, for example:

- Monthly progress reporting including cost and schedule tracking, risk management and quality assurance;
- Document management and SharePoint site maintenance and updates; and
- Application and updating the Program Management Plan, implement health and safety plan.

All personnel to support the Program are identified in writing and authorized by the City’s Program Director. The personnel and labor hours for the FY 2021 Work Plan represent the Program Team’s best understanding of the strategic, technical, and administrative requirements for delivering the planned services. Actual requirements may vary and the City and HDR will work together to adjust the staffing and distribution of labor hours within this AWP to maintain progress toward delivery of the Program.

Estimated Fees

Table 5 presents the FY 2021 HDR fees for services for the work to be done on each project during the coming year. The fee estimate is also presented by task and total hours as an attachment to Contract Amendment 2021-01.

Table 5 –Project Budget and Associated HDR Fee

#	Project	HDR FY21 Service Order Budget	Planning	Design	Bid	Construction
1.1	Laguna Creek Diversion Retrofit	\$41,535		X	X	X
1.3.1	Tait Diversion Rehab / Retrofit	\$3,450	X			
1.4	Felton Diversion and Pump Station Assessment	\$118,059	X			
1.5	Newell Creek Dam Inlet-Outlet Pipeline Replacement Project	\$219,698				X
2.1	North Coast System Repair / Replacement	\$49,410	X			
2.2.1	Newell Creek Pipeline Rehab/Replacement – Felton / Graham Hill	\$190,866		X		
2.2.3	Newell Creek Pipeline – Brackney Landslide Area Pipeline Risk Reduction	\$143,966		X		
2.3	Coast Pump Station 20" Raw Water Pipeline Replacement	\$288,523				X
3.1	Water Supply Augmentation	\$28,677	X			
3.2	Recycled Water Feasibility	\$25,643	X			
3.3	Aquifer Storage & Recovery (ASR)	\$171,242	X			
4.2	Graham Hill WTP Flocculator Rehab/Replacement	\$72,249				X
4.3	Graham Hill WTP Concrete Tanks Project	\$939,997			X	X
4.4	Graham Hill WTP Facility Improvements Project	\$907,988		X	^a	
4.5	Riverbank Filtration Study	\$2,068	X			
6.1	University Tank No. 4 Rehab/Replacement	\$2,068	X			
N/A	Source Water Data Management – software implementation	\$34,029	X			
N/A	Asset Management: On Boarding and Computerized Maintenance Mgt. System Implementation Support	\$267,296	X			
N/A	Main Replacement Model - Data Management support	\$52,169	X			
N/A	Program Administration ^b	\$1,979,323				
N/A	Other Program-Wide Work ^c	\$1,347,599				
	Total HDR FY21 Service Order 6 Budget	\$6,885,854				

^a Includes selection of Design-Builder and initiation of Phase 1 Professional Services through a Progressive Design Build Delivery Method.

^b Includes General Program Administration, Risk Management, Document Management, Procurement & Contract Administration Implementation support, SH&E Plan documentation, Quality Assurance Implementation, Project Delivery Model Implementation, Program Controls (Schedule, Cost Management, Program Monthly Report), Annual Work Plan, Workforce Development Trainings, Program staffing and resource management, Invoice preparation.

^c Includes Staff Augmentation (Planning & Design Management, Project Management, Project Engineering support, Environmental Leads, Environmental Advisory, Electrical support, Operations support), Design Review Software Implementation, Asset Management, Main Replacement Program, General Construction Management oversight, Construction Management information system procurement, and support for Right of Way, Communication & Public Outreach, Project Funding, and Program Technical (general).

Funding Source:

Funding for all activities planned as part of Service Order 6, including the program management fee, is included in the Water Department's FY 2021 Capital Investment Program. Additional work planned for FY 2021 includes continuation of minimal activities pre-authorized and funded within the prior Service Order 5. As many of the projects included in Water Program are large and will occur over multiple years, the Department developed the 2016 Long Range Financial Plan to identify the steps needed to fund these investments in rehabilitating or replacing existing water system infrastructure and developing a supplemental supply to improve the reliability of the Santa Cruz water system. That plan was approved by the City Council on June 14, 2016 and is guiding the Department's approach to planning for and funding this decade long capital reinvestment cycle.

Over the last year, the Water Department made progress towards executing two low-interest loans through the State Revolving Fund (SRF). In the summer of 2020, the Department will also apply to the Water Infrastructure Finance and Innovation Act (WIFIA) loans for four projects, with a total estimated cost of \$250 million. Both the State (SRF) and Federal (WIFIA) loan programs reimburse for design, construction, and program management costs-to implement a project. Finally, the City has secured FEMA Hazard Mitigation Program grant funding for one project (2.2.3).

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WATER COMMISSION
INFORMATION REPORT

DATE: 5/27/2020

AGENDA OF: June 1, 2020
TO: Water Commission
FROM: Rosemary Menard
SUBJECT: Part 2 – Discussion of Water Pricing Objective Exercise

RECOMMENDATION: That the Water Commission approve a set of Water Pricing Policy Objectives to be used in developing future rate structures.

BACKGROUND: At the Water Commission’s May 4, 2020 meeting the Commission received a presentation summarizing the process used to develop water rates, including an introduction of the water pricing objectives exercise. After some discussion, the Commission decided to individually complete the exercise of prioritizing water pricing objectives and to submit them to the Water Director who would compile responses and transmit them to Raftelis.

DISCUSSION: All Commissioners completed the exercise and both individual Commissioner results and comments received from Commissioners in their conveying emails were provided to Raftelis on May 15, 2020. As Raftelis staff reviewed the results it was decided that removing the “complies with Proposition 218” objective made sense because it was clear that Commissioners rated it quite differently based on whether they viewed it as a high priority “must do” because “it’s the law” or a low priority “will do in any case” because “it’s the law.”

Attachment A is a table with the results of the exercise. The table includes a color-coded variance column to the degree of variability in the Commissioners’ ranking of the various objectives. Green/lower numbers show that the Commissioners generally agreed on that sub-objective whereas red/higher numbers show that there was some disparity in their rankings.

At the Water Commission’s June 1, 2020 meeting Raftelis staff will facilitate a discussion among the Commissioners to identify a list of key water pricing policy objectives to use in the rate structure development process when that process occurs.

FISCAL IMPACT: None

PROPOSED MOTION: Motion to approve a set of water pricing policy objectives to be used in development future water rate structures.

ATTACHMENTS:

Attachment A – Consolidated Priority list of Water Commissioner Water Pricing Objectives

Attachment A

Importance Rankings	Sub-Objectives	Average	Variance
Most Important	Supports affordability for essential use	3.6	2
	Enhances revenue sufficiency	4.6	5
	Facilitates equitable access to water	5.1	3
Very Important	Allocates capital costs equitably	6.9	4
	Meets the terms and conditions for the Long Term Financial Plan	7.0	6
	Promotes efficient water use	7.7	4
	Maintain transparency regarding capital needs	7.9	4
	Provides tool for drought management action plan	8.1	3
Important	Is simple to communicate	9.1	2
	Promotes rate stability	9.1	2
	Promotes conservation	9.7	4
	Enhances revenue stability	10.1	3
Least Important	Minimizes overall customer impacts	12.4	3
	Is based on best practices and industry standard methodologies	14.4	2
	Accounts for individual needs	14.9	4
	Eases implementation	14.9	3
	Eases administration	15.3	1

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WATER COMMISSION
INFORMATION REPORT

DATE: 5/28/2020

AGENDA OF: June 1, 2020

TO: Water Commission

FROM: Nicole Dennis, Finance Manager (acting)
Heidi Luckenbach, Deputy Director/Engineering Manager
Dave Culver, Chief Financial Officer

SUBJECT: Water Department's Proposed Fiscal Year (FY) 2021 Operating and FY
2021-25 Capital Investment Program (CIP) Budgets Wrap-up

RECOMMENDATIONS:

That the Water Commission authorize the Chair to send a letter to the City Council related to the Department's FY 2021 Budgets and financial position recommending the Water Department's Budgets to the City Council.

BACKGROUND: As outlined in the Water Commission's Bylaws, the Commission's role includes the duty to "make recommendations concerning the proposed annual Water Department budget and CIP." To that end, the Department is presenting the Budgets to the Water Commission and seeking a recommendation to the Council in the form of a signed letter along with related materials to submit to the City Council.

The Water Department's Operating and Capital Investment Budgets authorize the necessary appropriation amounts for the Department to fulfill its mission to "ensure public health and safety by providing a clean, safe, reliable supply of water to its customers." The Budgets have been specifically developed to support the continuing operations and maintenance of the water system and its ability to serve the community with a high quality and reliable water supply, and to provide the resources needed to finance major capital investments for the rehabilitation and replacement of water infrastructure, make further investments in improving the reliability of the Santa Cruz water supply, and prepare the water system to be more resilient and reliable in the face of the significant uncertainty that arises from climate change.

The Santa Cruz City Council held its FY 2021 Operating and CIP budget hearings on May 12th and 13th and is expected to adopt the Budgets on June 23, 2020. These Budgets are being considered "working" budgets due to the ongoing COVID-19 pandemic, which may require ongoing budget reviews and potential adjustments throughout the upcoming fiscal year. Water Department staff is actively monitoring water sales to understand impacts from the COVID-19 pandemic and the local and state's Shelter-In-Place (SIP) order.

DISCUSSION: On May 4, 2020, the Water Commission reviewed the Department’s FY 2020-21 Operating and FY 2021-25 CIP Budgets and included the following documents:

- Water Department’s FY 2021 Proposed Operating Budget
- Water Department’s FY 2021-25 Proposed CIP Budget
- Water Department’s CIP Project Descriptions
- Draft of the 10 Year FY 2021 Financial Pro Forma

These documents were provided as part of the package of materials for Water Commission consideration and for transmittal to the City Council as part of the Water Commission’s recommendation. Staff were available to respond to Commissioner’s questions, some of which, required additional analysis. Those responses and the FY 2021 Five Year Analytics are discussed in this report.

FY 2021 Operating Budget

All questions related to the Department’s FY 2021 Operating Budget were answered at the May 4th meeting.

FY 2021-2025 Proposed Capital Investment Program Budget

There were several questions raised regarding the Proposed CIP Budget and a robust discussion followed. Two questions remained at the end of the meeting.

The first was: how would \$10 million of borrowed debt money affect water rates for residential customers? Single and multi-family residential units account for approximately 55% of total accounts. If the same percentage was applied to the annual amount required to service \$10 million in debt, the amount would be approximately \$12 per year or \$1 per month per residential unit.

The second question related to the discrepancy between the CIP project estimates in the Pro Forma versus the Proposed CIP Budget provided at the May 4th meeting. Table 1 below displays the difference between current Pro Forma project estimates and the proposed CIP budget from FY2021 to FY2025 submitted in February. The principle differences are project variances due to updated estimates that are included in the Pro Forma that are not in the CIP Budget, multiple rounding differences, and a few small projects that do not sync up with both CIP Budget and the Pro Forma.

Table 1

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
CIP Budget	62,277,000	74,318,000	68,346,000	48,700,000	61,933,000	315,574,000
CIP Budget Carryover	5,147,767	-	-	-	-	5,147,767
Sub Total CIP	67,424,767	74,318,000	68,346,000	48,700,000	61,933,000	320,721,767
Pro Forma	79,503,627	85,862,837	71,522,016	48,033,368	66,888,227	351,810,075
Difference	12,078,860	11,544,837	3,176,016	(666,632)	4,955,227	31,088,308

Table 2 below reflects the primary variances that are due to updated estimates for the Newell Creek Inlet/Outlet project (NCD I/OC), and the Graham Hill Water Treatment Plant Concrete Tanks (GHWTP Tanks). As a result of those two increased estimates, the Management Reserve (which reserves 10% of the annual CIP total) increased correspondingly. There are also multiple rounding differences and a couple of small projects that are only in the CIP Budget and not the Pro Forma or visa-versa.

Table 2

<u>Variances Explained</u>	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Newell Creek Inlet/Outlet Updated Estimate	6,529,814	6,745,205	(985,579)	(1,470,000)	-	10,819,440
GHWTP Tanks Updated Estimate	4,453,695	3,632,921	3,738,450	106,495	-	11,931,562
Mgmt. Reserve increased due to updated estimates above	1,243,944	1,167,137	422,015	699,225	4,931,633	8,463,954
* Various Differences	(148,593)	(426)	1,129	(2,352)	23,594	(126,647)
Total	12,078,860	11,544,837	3,176,016	(666,632)	4,955,227	31,088,308

* Multiple Rounding differences; include Union/Locust Admin Back Up Power Generator in CIP not in Pro Forma; Recycled Water Feasibility Study includes Funding from Fund 715 in Pro Forma while CIP Budget is only Fund 711

The FY 2021 budget estimates were submitted to the Finance Department in February. Between February and late April (when the pro forma and Water Commission agenda packet was compiled), the cost estimates for the NCD I/O project and GHWTP Tanks increased by \$10.8M and \$11.9M respectively for a total variance of \$22.7M. The successful bid from the vendor selected for the NCD I/O received in April reflected a substantial increase from the original engineering estimate. For the GHWTP Tanks project, the original engineering design estimate for the GHWTP Tanks project was only 75% complete when the FY 2021-FY 2025 CIP Budget was submitted. By late April, the design was updated to include value engineering and reflected an increase of \$11.9M. The engineering estimate is expected to be at 95% very soon. At this point in time, this is the best working estimate available for the GHWTP Tanks project, however, it will be difficult to peg an exact number until the bid is awarded. As a result, this estimate should continue to be considered preliminary and will be updated as new information becomes available.

Five Year Budget Analytics

Attachment 2 is a five-year analysis comparing budgeted to actual expenditures, at the Department and Section/program, level beginning in FY 2016 through the FY 2021 Proposed Budget. The “adjusted budget” column represents the approved budget for the specific year plus any items rolled forward into the following fiscal year and any budget adjustments approved administratively or by the City Council. Funding for items rolled into the following fiscal year included multi-year projects and purchases. Due to the compressed budget production timeframe, transfer and PO carry forward amounts were not easily discernable for FY 2020.

New for the FY 2021 Budget Analytics is the addition of the percentage change from FY 2020 Estimated Actuals to the FY 2021 Proposed Budget column by Section. The following discussion highlight trends and includes notes on the larger year to year changes:

- 1) The FY 2021 Five Year Budget Analytics has been updated to reflect the correct debt service for FY 2020.
- 2) It should be noted that the FY 2020 operating expenses are based on estimated actuals prepared midway through the current fiscal year with the Finance Department provided projected year-end personal expenses. The FY 2020 4th Quarter Financial report will provide an updated year-end financial position and will be provided to the Commission in the fall.
- 3) Debt service has to increase as the Department issues more debt to fund the CIP and includes the Green Bonds issued in December 2019.
- 4) The 8.6% increase in budgeted personnel costs from FY 2020 to FY 2021 is attributable to negotiated salary increases, changes in staffing compliments, and increased costs of health insurance and pension costs.
- 5) Services and supplies spending are relatively flat for FY 2021 but does include increases and decreases to specific programs.
- 6) Capital Outlay purchases continue to fluctuate from year to year based on identified capital equipment needs. In FY 2018, the Water Department established a new “Water Equipment Replacement Fund” (Fund 719) as a sinking fund for future capital replacement. At the end of FY 2020, the fund will achieve the targeted \$1,050,000 and the Department is working to establish policies for the long-term use of this fund. The goal is to reduce fluctuations in capital equipment expenditures to better project longer-term capital equipment needs.
- 7) In regards to the individual sections and percentage changes between the FY 2020 Estimated Actuals and the FY 2021 Proposed Budget, there are common themes that contribute to increases: negotiated salary increases and increased benefit costs. Other increases are due to specific program elements as follows:
 - a) Customer Service – During FY 2020, this section had 2.0 FTE vacancies which contributed to lower expenditures in FY 2020 and were budgeted at the top step for FY 2021. Merchant Bank Fees, the cost changed to the Department for accepting payments via credit cards, increased by \$40,000.
 - b) Meter Shop – the Meter Replacement project was moved from the operating budget to the CIP in FY 2020 explaining the large reduction in this budget from FY 2019 through FY 2021.
 - c) Conservation – The partial year vacancy of the Water Conservation Manager combined with later than anticipated start of the WaterSmart roll-out contributed to lower spending in FY 2020. Increased costs in FY 2021 are attributed to further implementation of the Conservation Master Plan including an expansion of the program targeting low-income homes with the installation of water-saving devices and an update of the water demand forecast.
 - d) Operations – The Section was newly created in FY 2020 by moving resources from other sections and formalizing the function of overseeing the operating sections. Lower than anticipated expenditures are due to a partial year vacancy and the associated later start of programmatic work.
 - e) Water Resources – In addition to partial year vacancies, work related to the Habitat Conservation Plan and Water Rights project proceeded slower than anticipated creating a large current year variance. Resources to support these projects and others were replicated in the FY 2021 Proposed Budget. The Water Resources group will be moving

to leased space in FY 2021 which will free up space on the GHWTP campus. Lease costs, tenant improvements, and a new vehicle lease make up the increases for FY 2021.

- f) Production – Once again, roughly 5.0 FTEs of vacancies throughout the current fiscal year contributed to lower expenditures in FY 2020 and are budgeted at the top step for FY 2021. Increased costs for electricity, chemicals and equipment contribute to the increased costs for FY 2021.
- g) Recreation – Temporary help was increased to provide better coverage for Loch Lomond during the season. Other increases include Merchant Bank Fees and the recommended replacement of a truck.

Final FY 2021-2031 Pro Forma

The Final FY 2021 10-year Financial Pro Forma is provided (Attachment 3) and includes financial performance for the Water Department’s projected spending in the FY 2021 operating budget and a 5 year CIP. The information has been updated since the May 4th Water Commission to reflect the most current information with the most significant change is the inclusion of \$12 million of unspent CIP funds from FY 2020.

The Final FY 2021 Financial Pro Forma reflects current year estimated total revenues of \$45,216,750 and total operating expenditures of \$33,399,010 (including debt service of \$3,316,361) as well as \$79,503,628 in capital expenditures.

The projected size and timing of debt issues to finance these capital projects are updated summarized in Table 3 below. These figures do not include the potential benefits of additional DWSRF or WIFIA funding for projects that may defer or replace projected borrowing shown below.

Table 3

2021	2022	2023	2024	2025
\$ 7,351,633	\$ 23,428,789	\$ 36,524,891	\$ 40,914,451	\$ 60,328,249

The total anticipated debt issues total \$168.5 million over the next five years. To maintain the capital program bonds will need to be issued during FY 2021 that can also incorporate the amount needed in 2022 for a total of \$30.8 million thereby postponing any further bond issuance until 2023.

It should be noted that the amounts reflected in the Working Draft Pro-Forma include only Fund 711 (Water Operations), Fund 713 (Rate Stabilization), Fund 716 (90 Day Operating Reserve) and Fund 717 (Emergency Reserve). However, a small portion of some capital projects is funded from Fund 715 (System Development) but is not included as part of the Pro Forma.

FISCAL IMPACT: Funds are available to support the FY 2021 Proposed Budgets as demonstrated in the Financial Pro Forma.

PROPOSED MOTION: Move to recommend to the City Council approval of the Water Department’s FY 2021 Operating and FY 2021-25 Capital Investment Program budgets and to authorize the Water Commission Chair to sign the Water Commission’s letter and report

accompanying its recommendation and sign the letter to the Council on behalf of the Commission.

ATTACHMENTS:

Attachment 1 – May 4th FY 2021 Proposed Budget Staff Report

Attachment 2 – Water Department's FY 2021 Five Year Budget Analytics

Attachment 3 – Final FY 2021 10-year Financial Pro Forma

Attachment 4 – Water Commission Letter to the City Council

- 4a - Water Department FY 2021 Proposed Operating and CIP Budgets
- 4b - Example of Quarterly Financial Reports prepared for and distributed to the Water Commission
- 4c - Water Department FY 2021 Budget Analytics
- 4d - Water Department 10-year Financial Pro Forma



WATER COMMISSION
INFORMATION REPORT

DATE: 4/30/2020

AGENDA OF: May 4, 2020

TO: Water Commission

FROM: Nicole Dennis, Finance Manager (acting)
Heidi Luckenbach, Deputy Director/Engineering Manager
Dave Culver, Chief Financial Officer

SUBJECT: Water Department's Proposed Fiscal Year (FY) 2021 Operating and FY 2021-25 Capital Investment Program (CIP) Budgets

RECOMMENDATIONS:

- 1) That the Water Commission review and provide feedback to staff on the Water Department's Proposed FY 2021 Operating and FY 2021-25 CIP Budgets (Budgets), including an updated multi-year Pro Forma integrating information about the Department's Budgets and financial position.
 - 2) That the Water Commission recommend the Chair work with staff to draft a letter to the City Council related to the Department's FY 2021 Budgets and financial position recommending the Water Department's Budgets to the City Council based on Commission input, on behalf of the Commission to be approved at the June 8, 2020 Water Commission meeting.
-

BACKGROUND: As outlined in the Water Commission's Bylaws, the Commission's role includes the duty to "make recommendations concerning the proposed annual Water Department budget and CIP." To that end, the Department is presenting the Budgets to the Water Commission and seeking a recommendation to the Council in the form of a signed letter along with related materials to submit to the City Council.

The Water Department's Operating and Capital Investment Budgets authorize the necessary appropriation amounts for the Department to fulfill its mission to "ensure public health and safety by providing a clean, safe, reliable supply of water to its customers."

The Budgets have been specifically developed to support the continuing operations and maintenance of the water system and its ability to serve the community with a high quality and reliable water supply, and to provide the resources needed to finance major capital investments for the rehabilitation and replacement of water infrastructure, make further investments in improving the reliability of the Santa Cruz water supply, and prepare the water system to be

more resilient and reliable in the face of the significant uncertainty that arises from climate change.

The Santa Cruz City Council will hold its FY 2021 Operating and CIP budget hearings on May 12th (and 13th if needed) and adopt the Budgets on June 23, 2020. These Budgets are being considered “working” budgets due to the ongoing COVID 19 pandemic, which may require ongoing budget reviews and potential adjustments throughout the upcoming fiscal year. As noted in the staff report for the 2nd Quarterly Financial Report, Water Department staff is actively monitoring water sales to understand impacts from the COVID-19 pandemic and the local and state’s Shelter-In-Place (SIP) order.

DISCUSSION: A number of documents related to the Department’s FY 2021 Budgets and Pro forma are provided as part of the package of materials for Water Commission consideration and for transmittal to the City Council as part of the Water Commission’s recommendation. Included are:

- Attachment 1 - Water Department’s FY 2021 Proposed Operating Budget
- Attachment 2 - Water Department’s FY 2021-25 Proposed CIP Budget
- Attachment 3 - Water Department’s CIP Project Descriptions
- Attachment 4 – Working Draft of an Updated Financial Pro Forma

FY 2021 Operating Budget

The Department’s FY 2021 Proposed Operating Budget represents a status quo budget and totals \$36.4 million and includes 116.5 FTEs. The Department continued the practice of evaluating requests for additional resources using a data-driven approach. Budget proposals can be developed by any staff member and are developed using a standardized format which is consistent with the Department’s Strategic Planning work. Only one proposal was submitted, requesting the replacement of Fume Hoods at the Water Quality Lab, and was included in the FY 2020 Proposed Budget.

The Department is pursuing the addition of a 1.0 FTE Water Chief Financial Officer and a 1.0 deletion of a Finance Manager. As part of the FY 2020 Mid-Year Budget, the recently vacated Water Conservation Manager will be deleted. These changes are included in the 116.5 FTE count for FY 2021.

The roughly \$575,000 decrease in Capital Outlay reflects purchases of three pieces of heavy equipment and a Laboratory Information Management System (LIMS) completed in FY 2020 and removed from the FY 2021 budget. Debt service reflects the payoff of the Line of Credit and the new debt service for the Green Bonds issued by the Department in December 2019. Lastly, the Department’s budget analytics will be provided to the Water Commission at their June meeting.

FY 2021-2025 Proposed Capital Investment Program Budget

Development of the CIP is an ongoing, iterative process. Following project validation in 2018-2019 where each project was thoroughly evaluated in terms of purpose, priority and cost, staff has continued to work with HDR, Inc., our program manager, to further develop a CIP that is

sufficiently resourced in terms of both staff and financial resources to help ensure successful implementation.

With such a large capital program, coupled with known and unknown internal and external influences, the iterative nature of developing the Capital program will be ongoing. With well-defined projects (including scope, schedule and budget), thoughtful and consistent application of contingencies, inclusion of price escalation, etc., staff is confident that we will be able to adequately and responsibly respond to changes.

Project Highlights

Below are highlights for several of the projects; staff will be available for any questions on these or other projects.

Aquifer Storage and Recovery We are well in to year two of pilot testing at the Beltz 8 well, having just wrapped up Cycle 2 of the 3-cycle test. This pilot test included the installation of a monitoring well at the Live Oak Beltz Treatment Plant and staff took the opportunity to install at Soquel Point to collect and monitor water level and water quality data from the Santa Margarita Sandstone aquifer. The existing well at Soquel Point is completed in the shallower Purisima Formation.

Newell Creek Dam Inlet/Outlet Replacement Project (NCD IO) This project was awarded to Obayashi Corporation for \$69M to begin May/June 2020. City staff will continue to participate, filling roles as project manager, project engineer, environmental lead, and managing a team of consultants for construction management services, technical advisory board, dispute resolution board, and will be working closely on site with the State Division of Safety of Dams for ongoing inspection work. Staff also completed the financial agreement with the State for \$103M.

Coast Pump Station 20-Inch Pipeline Replacement This project was awarded recently to Vadnais Construction. Work is scheduled to begin in late May or early June, delayed slightly by the various hurdles presented by the pandemic although due to contract float, is still expected to be completed on time.

GHWTP Concrete Tanks Replacement Staff was able to prequalify nine contractors for this project which will go out to bid in June. Construction is planned to begin the end of calendar year 2020.

University Tank No. 5 Construction activities on this project are complete except for final planting and paving. The one-year warranty has started.

Budget Changes

Two changes are worth noting in Attachment 2 with respect to how the budget information is being conveyed.

Last fiscal year the Department implemented a change in its capital budgeting approach to focus on yearly appropriations matching the amount paid to consultants/contractors rather than appropriating all funds required to complete the project at project initiation. The latter method

led to significant annual carry overs, complicating project accounting as well as cash flow planning and management. However, having implemented this new approach over the past year, the Department has realized a new set of issues in that budgeting to the anticipated spending amounts paid does not provide enough flexibility in funding for encumbrances. Specifically, enough funding is needed to cover encumbrances for future work and that is challenging to predict. Staff is looking for a hybrid approach that would reduce excess budget authority but accommodate a reasonable amount of encumbrances.

Management Reserve

The Management Reserve was created to cover unanticipated costs that arise on projects and cannot be covered with the available contingencies that are built into each project budget. For example, we covered greater than expected construction costs on the Coast Pump Station 20” Pipeline project by shifting money out of the management reserve, and into that project. This action was an administrative budget adjustment and allowed us to rapidly address the change, without any delay to the contract award process.

If management reserves are unspent in a given year, the expectation is that it would roll over to the next year.

Project Descriptions

Attachment 3 provides a description of all the projects that may be a useful companion piece to Attachment 2. Its linkage to Attachment 2 is through the Project #, (or Eden Number).

Funding Opportunities

Department staff continues to pursue low-interest loans and grants to fund the CIP, which results in substantial savings to rate payers. The Drinking Water State Revolving Fund (DWSRF) applications for the Newell Creek Inlet/Outlet (\$103 million) and the GHWTP Concrete Tanks (\$45.9 million) projects are proceeding well. Staff anticipates receiving the financing agreement for the Inlet/Outlet project from the State in the next few weeks. Previously, the Department received an eligibility date for the Inlet/Outlet project which allowed the Department to begin submitting reimbursement claims for design and planning costs. The Water Department is also pursuing a Water Infrastructure Finance and Innovation Act (WIFIA) federal loan through the US EPA. Using the DWSRF as the 51% match, WIFIA’s low-interest loans allows agencies to “bundle” projects for financing. The Department will also look at issuing additional market-rate debt in FY 2021.

Working Draft FY 2021-2031 Pro Forma

The updated Financial Pro Forma is provided (Attachment 4) and includes financial performance for the Water Department’s projected spending in the FY 2021 operating budget and a 5 year CIP. The Pro Forma is based on running the model developed for the 2016 Long Range Financial Plan (LRFP) as appropriately updated over time. There are a number of assumptions incorporated into the Pro Forma which include:

- 1) Sales of 2.37 billion gallons of water each fiscal year;
- 2) Inflation factors of:
 - a) 6% for rate increase FY 2021 (the last year of approved rate adjustments);

- b) 3% for salaries;
 - c) 9% for benefits;
 - d) 5% for operation and maintenance costs; and,
 - e) 5% for Capital Outlay.
- 3) CIP is based upon an updated 10 year plan;
 - 4) Interest rate for future debt of 5% and project fund earnings of 1%.

In recent years since the 2008 recession CalPERS has made a number of policy decisions increasing pension costs for cities, counties and special districts. These policy decisions (expected rate of return on investments, mortality, and amortization periods) have substantially increased annual pension costs for Santa Cruz. Further increases due to the coronavirus impacts on investment markets may be inevitable but impossible to estimate at this time. The California Public Employees’ Retirement System fund balance stood at \$335 billion in March, down from a high of \$404 billion in February 2020, a loss of \$69 billion. The actual extent of losses at CalPERS won’t be known until probably July according to the Sacramento Bee. When further information is available it will be incorporated into the financial Pro Forma.

The updated Financial Pro Forma reflects current year estimated total revenues of \$45,219,758 and total operating expenditures of \$33,399,010 (including debt service of \$3,316,361) as well as \$79,503,628 in capital expenditures.

The FY 2021 Pro Forma estimates the goal for maintaining 180 days cash will be achieved and the debt service coverage goal of 1.5 times the net operating revenues exceeds debt service through 2023. Both the Rate Stabilization Reserve Fund (713) and the Emergency Reserve Fund (717) are expected to maintain the minimum policy goal levels of \$10 million and \$3 million respectively through 2025.

The Department issued a \$25 million Revolving Line of Credit (LOC) at the end of FY 2018 to help meet short term financing needs for FY 2018 and FY 2019 and provide a financial bridge to planned long term debt financing. The actual draws on the LOC was approximately \$10 million and was retired during FY 2020 using a portion of the proceeds from the \$25 million 2019 Green Bond issue. The remaining \$15 million is expected to reimburse eligible capital projects during 2020 and 2021.

The Newell Creek Inlet/Outlet project has received approval for funding from the Drinking Water State Revolving Fund (DWSRF) and funding from this source is also expected for the GHWTP Concrete Tanks project. Staff will also be pursuing funding from the Environmental Protection Agency (EPA) Water Infrastructure Finance and Innovation Act (WIFIA) which is not currently reflected in the Pro Forma.

The projected size and timing of debt issues to finance these capital projects are summarized in the Table below. These figures do not include the potential benefits of additional DWSRF or WIFIA funding for projects that may defer or replace projected borrowing shown below.

Size and Timing of Revenue Bond Issues Needed to Fund Capital Program				
2021	2022	2023	2024	2025
\$ 16,782,784	\$ 24,364,495	\$ 36,323,483	\$ 40,602,412	\$ 60,006,364

The total anticipated debt issues total \$178 million over the next five years. To maintain the capital program bonds will need to be issued during FY 2021 that can also incorporate the amount needed in 2022 for a total of \$40.2 million thereby postponing any further bond issuance until 2023.

It should be noted that the amounts reflected in the Working Draft Pro-Forma include only Fund 711 (Water Operations), Fund 713 (Rate Stabilization), Fund 716 (90 Day Operating Reserve) and Fund 717 (Emergency Reserve). However, a small portion of some capital projects is funded from Fund 715 (System Development). Due to the uncertainty associated with revenue projections related to development projects, this fund was left out of Attachment 5 in the interest of maintaining a conservative forecast.

FISCAL IMPACT: Funds are available to support the FY 2021 Proposed Budgets as demonstrated in the Financial Pro Forma.

PROPOSED MOTION: Move to recommend to the City Council approval of the Water Department's FY 2021 Operating and FY 2021-25 Capital Investment Program budgets and to authorize the Water Commission Chair to work with staff to finalize the Water Commission's letter and report accompanying its recommendation and sign the letter to the Council on behalf of the Commission.

ATTACHMENTS:

- Attachment 1 - Water Department's FY 2021 Proposed Operating Budget;
- Attachment 2 - Water Department's FY 2021-25 Proposed CIP Budget
- Attachment 3 - Water Department's CIP Project Descriptions
- Attachment 4 - Updated Financial Pro Forma

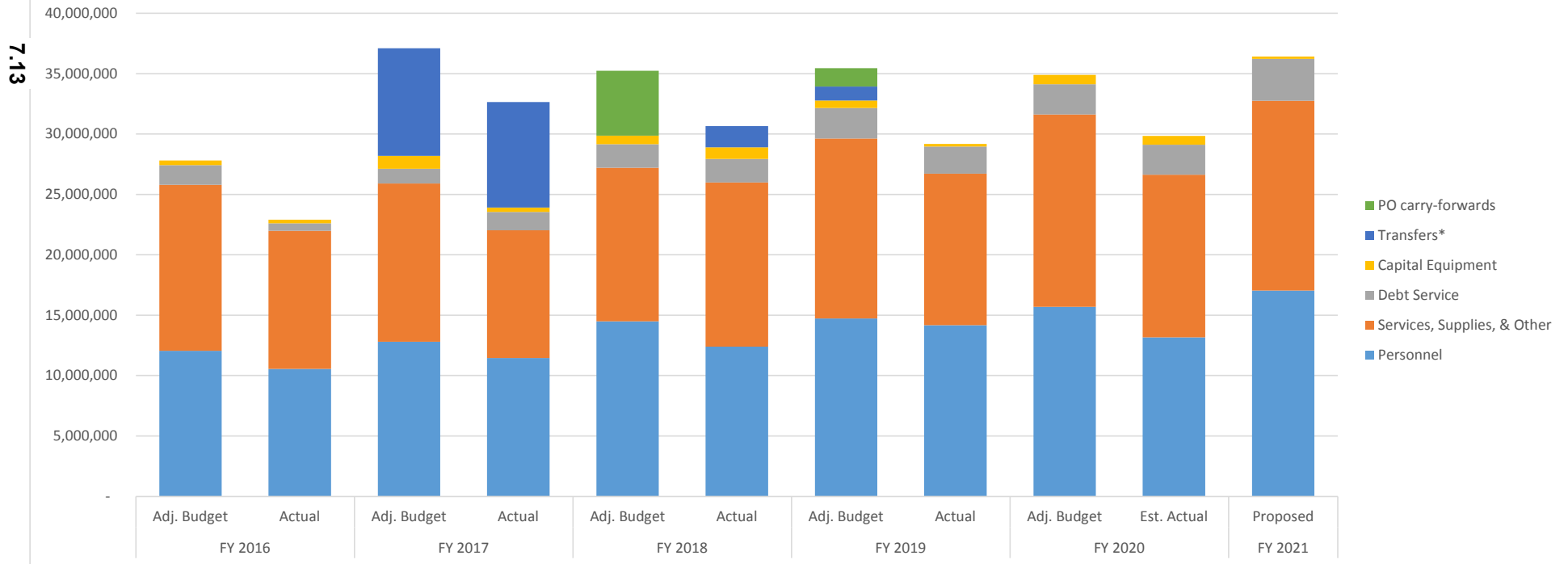
Proposed FY 2021 Operating Budget: Fund 711 & 715

BY CATEGORY OF EXPENSE

	FY 2016		FY 2017		FY 2018		FY 2019		FY 2020		FY 2021
	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Est. Actual	Proposed
Personnel	12,045,806	10,552,312	12,802,461	11,465,387	14,501,384	12,406,660	14,724,425	14,174,510	15,686,336	13,173,880	17,039,331
Services, Supplies, & Other	13,761,627	11,431,083	13,091,074	10,563,256	12,717,698	13,582,875	14,903,530	12,553,247	15,936,598	13,453,043	15,724,969
Debt Service	1,623,943	629,061	1,220,550	1,515,413	1,949,327	1,944,803	2,535,842	2,247,613	2,492,786	2,492,786	3,458,545
Capital Equipment	367,484	286,108	1,083,050	369,864	692,680	965,360	604,034	212,510	775,246	715,000	198,000
Transfers*	-	-	8,909,823	8,743,468	-	1,757,655	1,163,284				
PO carry-forwards		-		-	5,372,805	-	1,513,883	-			-
TOTAL Adjusted Budget	27,798,861	22,898,563	37,106,958	32,657,388	35,233,893	30,657,353	35,444,998	29,187,880	34,890,966	29,834,709	36,420,845

* Transfers included contributions to Public Art, Corp. Yard CIP Upgrades and transfers between Water Enterprise Funds

Historical Budget Comparison with FY 2021 Proposed Budget (BY CATEGORY OF EXPENSE)



Proposed FY 2021 Operating Budget: Fund 711

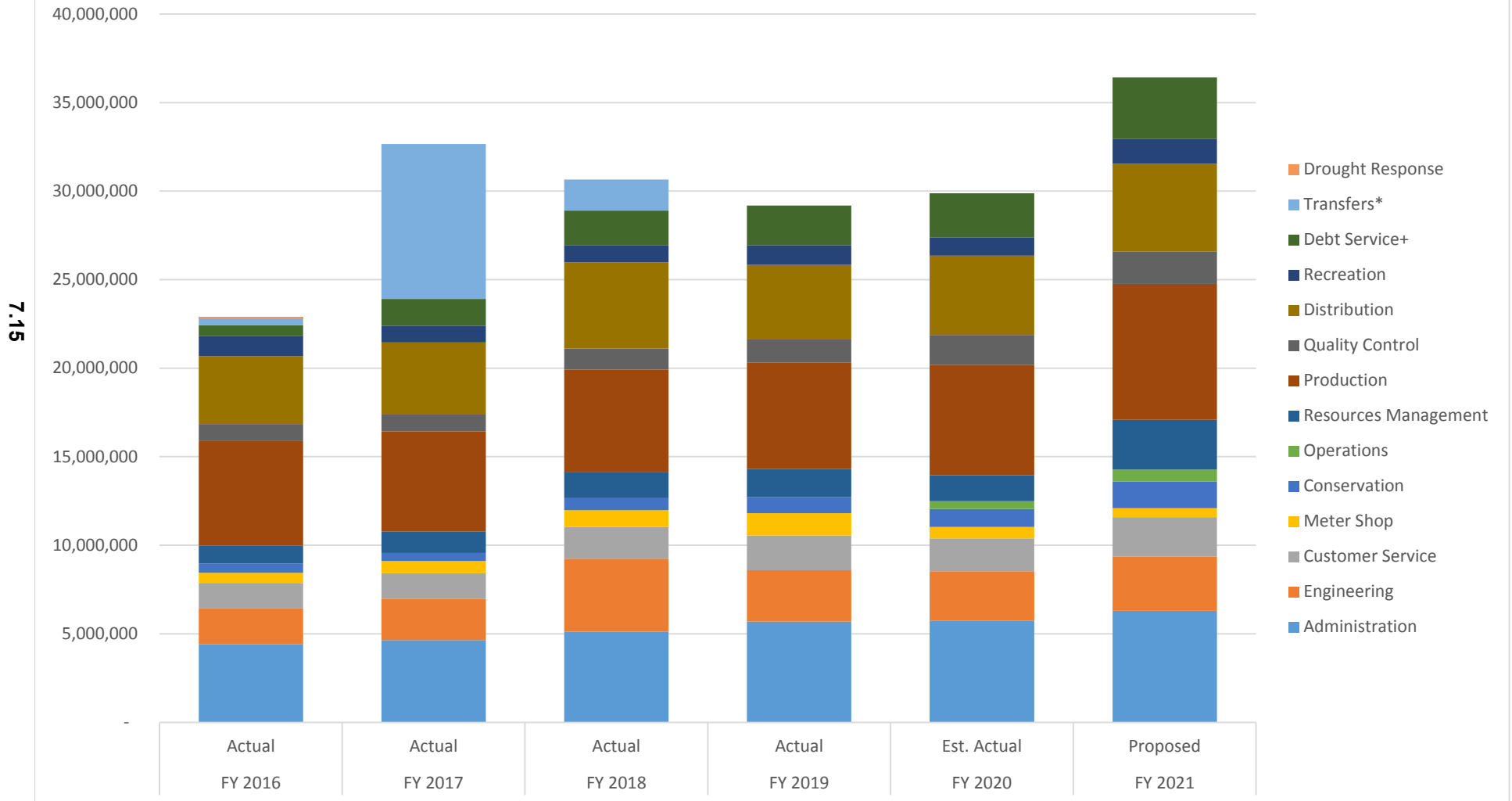
BY SECTION

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020 to FY 2021
	Actual	Actual	Actual	Actual	Est. Actual	Proposed	% Change
Administration	4,423,118	4,638,890	5,126,889	5,697,441	5,741,675	6,298,426	9.7%
Engineering	2,033,528	2,318,507	4,118,807	2,886,711	2,787,294	3,058,342	9.7%
Customer Service	1,379,905	1,467,008	1,783,540	1,974,229	1,854,800	2,230,293	20.2%
Meter Shop	608,770	693,555	956,319	1,248,169	645,233	504,228	(21.9%)
Conservation	521,443	446,381	679,791	913,474	1,017,400	1,498,904	47.3%
Operations			-	-	441,582	677,708	53.5%
Resources Management	1,009,331	1,194,622	1,455,311	1,581,505	1,477,284	2,821,726	91.0%
Production	5,908,516	5,678,113	5,803,113	6,002,756	6,231,306	7,668,169	23.1%
Quality Control	955,162	948,151	1,196,124	1,321,358	1,679,108	1,843,949	9.8%
Distribution	3,832,777	4,066,836	4,854,452	4,212,029	4,484,758	4,950,576	10.4%
Recreation	1,131,212	946,444	980,551	1,102,595	1,031,483	1,409,979	36.7%
Debt Service+	629,061	1,515,413	1,944,803	2,247,613	2,492,786	3,458,545	38.7%
Transfers*	370,000	8,743,468	1,757,655				
Drought Response	95,741	-	-	-	-		
TOTAL	22,898,563	32,657,388	30,657,353	29,187,880	29,884,709	36,420,845	21.9%

* Transfers included contributions to Public Art, Corp. Yard CIP Upgrades and transfers between Water Enterprise Funds

+ FY 2020 Debt Service has been corrected and differs from the Proposed Budget

Historical Budget Comparison with FY 2021 Proposed Budget (BY DEPARTMENT SECTION)



Budget Trends by Percent

	% of Change Comparing Actuals Expenditures					
	FY 2016 to FY 2017	FY 2017 to FY 2018	FY 2018 to FY 2019	FY 2019 to FY 2020	Average	FY 2016 to 2020
Personnel	8.7%	8.2%	1.5%	(7.1%)	2.8%	24.8%
Services, Supplies, & Other	(7.6%)	28.6%	17.2%	7.2%	11.3%	17.7%
Debt Service	140.9%	28.3%	30.1%	10.9%	52.6%	296.3%
Capital Equipment	29.3%	161.0%	(12.8%)	236.5%	103.5%	149.9%
TOTAL (w/o transfers)	25.0%	20.8%	(2.7%)	2.2%	11.3%	30.3%

	% of Change Comparing Budgeted Amounts						
	FY 2016 to FY 2017	FY 2017 to FY 2018	FY 2018 to FY 2019	FY 2019 to FY 2020	FY 2020 to FY 2021	Average	FY 2016 to 2021
Personnel	6.3%	13.3%	1.5%	18.7%	8.6%	9.7%	41.5%
Services, Supplies, & Other	(4.9%)	(2.9%)	17.2%	9.7%	(1.3%)	3.6%	14.3%
Debt Service	(24.8%)	59.7%	30.1%	30.4%	38.7%	26.8%	113.0%
Capital Equipment	194.7%	(36.0%)	(12.8%)	(37.4%)	(74.5%)	6.8%	(46.1%)
TOTAL (w/o transfers)	4.4%	25.0%	20.8%	(2.7%)	4.4%	10.4%	31.0%

	Budget vs Actuals				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personnel	(12.4%)	(10.4%)	(14.4%)	(3.7%)	(16.0%)
Services, Supplies, & Other	(16.9%)	(19.3%)	6.8%	(15.8%)	(15.6%)
Debt Service	(61.3%)	24.2%	(0.2%)	(11.4%)	0.0%
Capital Equipment	(22.1%)	(65.8%)	39.4%	(64.8%)	(7.8%)
TOTAL (w/o transfers)	(17.6%)	(12.0%)	(14.9%)	(11.9%)	(14.5%)

	Percent of Total Budget					
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Administration	19.3%	14.2%	16.7%	19.5%	19.2%	17.3%
Engineering	8.9%	7.1%	13.4%	9.9%	9.3%	8.4%
Customer Service	6.0%	4.5%	5.8%	6.8%	6.2%	6.1%
Meter Shop	2.7%	2.1%	3.1%	4.3%	2.2%	1.4%
Conservation	2.3%	1.4%	2.2%	3.1%	3.4%	4.1%
Operations				0.0%	1.5%	1.9%
Resources Management	4.4%	3.7%	4.7%	5.4%	4.9%	7.7%
Production	25.8%	17.4%	18.9%	20.6%	20.9%	21.1%
Quality Control	4.2%	2.9%	3.9%	4.5%	5.6%	5.1%
Distribution	16.7%	12.5%	15.8%	14.4%	15.0%	13.6%
Recreation	4.9%	2.9%	3.2%	3.8%	3.5%	3.9%
Debt Service	2.7%	4.6%	6.3%	7.7%	8.3%	9.5%
Transfers	1.6%	26.8%	5.7%	0.0%	0.0%	0.0%
Drought Response	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

City of Santa Cruz Water Department Pro-Forma Projections

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues											
Rate Revenue											
Fixed Fee Revenue	\$ 3,572,322	\$ 3,858,108	\$ 4,166,757	\$ 4,500,097	\$ 4,860,105	\$ 5,248,913	\$ 5,668,826	\$ 6,122,333	\$ 6,612,119	\$ 7,141,089	\$ 7,712,376
Volumetric Revenue	\$ 36,839,330	\$ 39,786,476	\$ 42,969,394	\$ 46,406,946	\$ 50,119,501	\$ 54,129,061	\$ 58,459,386	\$ 63,136,137	\$ 68,187,028	\$ 73,641,990	\$ 79,533,350
Elevation Surcharges	\$ 334,080	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788
Rate Stabilization Revenue	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ -
Manual Revenue Adjustment (Fire Service)	\$ 57,650	\$ 60,658	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164
Total Rate Revenue	\$ 43,966,750	\$ 47,221,398	\$ 50,715,472	\$ 54,486,363	\$ 58,558,927	\$ 62,957,295	\$ 67,707,533	\$ 72,837,790	\$ 78,378,468	\$ 84,362,399	\$ 87,661,678
Non-Rate Revenue											
Other Income	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ -
Investment Income	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ -
Total Non-Rate Revenue	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ -
Total Revenues	\$ 45,216,750	\$ 48,471,398	\$ 51,965,472	\$ 55,736,363	\$ 59,808,927	\$ 64,207,295	\$ 68,957,533	\$ 74,087,790	\$ 79,628,468	\$ 85,612,399	\$ 87,661,678
Operating Expenses											
Personnel	\$ 17,039,332	\$ 17,921,808	\$ 18,864,176	\$ 19,871,239	\$ 20,948,216	\$ 22,100,778	\$ 23,335,087	\$ 24,657,842	\$ 26,076,322	\$ 27,598,444	\$ 29,232,814
Services, Supplies & Other	\$ 15,724,969	\$ 16,511,217	\$ 17,336,778	\$ 18,203,617	\$ 19,113,798	\$ 20,069,487	\$ 21,072,962	\$ 22,126,610	\$ 23,232,940	\$ 24,394,587	\$ 25,614,317
Capital Outlay	\$ 198,000	\$ 207,900	\$ 218,295	\$ 229,210	\$ 240,670	\$ 252,704	\$ 265,339	\$ 278,606	\$ 292,536	\$ 307,163	\$ 322,521
Other Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 32,962,300	\$ 34,640,925	\$ 36,419,249	\$ 38,304,065	\$ 40,302,684	\$ 42,422,969	\$ 44,673,388	\$ 47,063,058	\$ 49,601,799	\$ 52,300,194	\$ 55,169,652
Net Operating Revenues	\$ 12,254,450	\$ 13,830,473	\$ 15,546,223	\$ 17,432,298	\$ 19,506,243	\$ 21,784,326	\$ 24,284,145	\$ 27,024,732	\$ 30,026,669	\$ 33,312,205	\$ 32,492,026
Capital Expenditures											
Grant Funded	\$ 79,503,628	\$ 85,862,837	\$ 71,522,016	\$ 48,033,368	\$ 66,888,226	\$ 103,536,556	\$ 88,982,756	\$ 25,765,360	\$ 16,482,472	\$ 3,183,665	\$ -
SRF Funded	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
WIFIA Funded	\$ 54,230,844	\$ 58,858,126	\$ 32,547,872	\$ 2,540,495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Currently Funded	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pay-Go Funded	\$ 12,100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Funded	\$ 5,821,151	\$ 3,575,923	\$ 2,449,253	\$ 4,578,422	\$ 6,559,977	\$ 8,130,061	\$ 10,615,926	\$ 12,675,663	\$ 13,178,519	\$ 3,183,665	\$ -
Debt Funded	\$ 7,351,633	\$ 23,428,789	\$ 36,524,891	\$ 40,914,451	\$ 60,328,249	\$ 95,406,495	\$ 78,366,830	\$ 13,089,697	\$ 3,303,953	\$ 0	\$ -
Debt Service	\$ 3,315,081	\$ 6,527,080	\$ 6,636,242	\$ 10,998,782	\$ 15,067,962	\$ 18,297,441	\$ 23,406,542	\$ 27,670,202	\$ 28,836,411	\$ 28,863,793	\$ 28,868,806
Net Income	\$ 3,118,217	\$ 3,727,470	\$ 6,460,727	\$ 1,855,094	\$ (2,121,696)	\$ (4,643,177)	\$ (9,738,323)	\$ (13,321,133)	\$ (11,988,261)	\$ 1,264,748	\$ 3,623,220
Total Cash Balances											
Beginning Total Cash Balance	\$ 28,053,045	\$ 31,171,262	\$ 34,898,732	\$ 41,359,454	\$ 43,214,547	\$ 41,092,851	\$ 36,449,675	\$ 26,711,351	\$ 13,390,219	\$ 1,401,957	\$ 2,666,705
I-Bank Reimbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Calculated Change to Cash Balances	\$ 3,118,217	\$ 3,727,470	\$ 6,460,722	\$ 1,855,094	\$ (2,121,696)	\$ (4,643,177)	\$ (9,738,323)	\$ (13,321,133)	\$ (11,988,261)	\$ 1,264,748	\$ 3,623,220
Ending Total Cash Balance	\$ 31,171,262	\$ 34,898,732	\$ 41,359,454	\$ 43,214,547	\$ 41,092,851	\$ 36,449,675	\$ 26,711,351	\$ 13,390,219	\$ 1,401,957	\$ 2,666,705	\$ 6,289,925
Beginning Cash Balances by Fund											
Fund 717 (Emergency Reserve)	\$ 3,120,235	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 1,401,957	\$ 2,666,705
Fund 713 (Rate Stabilization)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Fund 716 (90 Day Operating Reserve)	\$ 6,732,810	\$ 8,127,690	\$ 8,541,598	\$ 8,980,089	\$ 9,444,838	\$ 9,937,648	\$ 10,460,458	\$ 11,015,356	\$ 290,219	\$ -	\$ -
Fund 711 (Water Operations)	\$ 8,200,000	\$ 9,943,571	\$ 13,257,134	\$ 19,279,365	\$ 20,669,709	\$ 18,055,203	\$ 12,889,216	\$ 2,595,995	\$ -	\$ -	\$ -
Changes to Cash Balances by Fund											
Fund 717 (Emergency Reserve)	\$ (20,235)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,698,043)	\$ 1,264,748	\$ 433,295
Fund 713 (Rate Stabilization)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund 716 (90 Day Operating Reserve)	\$ 1,394,880	\$ 413,908	\$ 438,491	\$ 464,749	\$ 492,810	\$ 522,810	\$ 554,898	\$ (10,725,137)	\$ (290,219)	\$ -	\$ -
Fund 711 (Water Operations)	\$ 1,743,571	\$ 3,313,562	\$ 6,022,231	\$ 1,390,344	\$ (2,614,506)	\$ (5,165,987)	\$ (10,293,221)	\$ (2,595,995)	\$ -	\$ -	\$ -
Ending Cash Balances by Fund											
Fund 717 (Emergency Reserve)	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 1,401,957	\$ 2,666,705	\$ 3,100,000
Fund 713 (Rate Stabilization)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Fund 716 (90 Day Operating Reserve)	\$ 8,127,690	\$ 8,541,598	\$ 8,980,089	\$ 9,444,838	\$ 9,937,648	\$ 10,460,458	\$ 11,015,356	\$ 290,219	\$ -	\$ -	\$ -
Fund 711 (Water Operations)	\$ 9,943,571	\$ 13,257,134	\$ 19,279,365	\$ 20,669,709	\$ 18,055,203	\$ 12,889,216	\$ 2,595,995	\$ -	\$ -	\$ -	\$ -
Coverage and Targets											
Debt Service Coverage (W/Out Reserves)	3.70x	2.12x	2.34x	1.58x	1.29x	1.19x	1.04x	0.98x	1.10x	1.11x	1.11x
Debt Service Coverage Target	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x
Debt Service Coverage (W/Reserves)	13.10x	7.47x	8.57x	5.51x	4.02x	3.18x	2.18x	1.46x	1.09x	1.25x	1.34x
Days' Cash (Includes only Funds 711 & 716)	200	230	283	287	254	201	111	2	0	0	0
Days' Cash Target	180	180	180	180	180	180	180	180	180	180	180



WATER COMMISSION

212 Locust Street, Suite A, Santa Cruz, CA 95060 Ph: 831-420-5200

June 8, 2020

Mayor Justin Cummings
Vice Mayor Donna Meyers
Councilmember Katherine Beiers
Councilmember Sandy Brown
Councilmember Renee Golder
Councilmember Cynthia Mathews
Councilmember Martine Watkins

Dear Mayor Cummings, Vice Mayor Meyers and Councilmembers Beiers, Brown, Golder, Mathews and Watkins:

The Santa Cruz Water Commission is pleased to convey our recommendations regarding the Water Department's FY 2021 Recommended Operating Budget and Capital Investment Program (CIP) Budget. Per the discussion below, we unanimously recommend the Council's approval of the proposed budgets.

The Commission recognizes the uncertainties that the current Shelter-in-Place order has created for the City of Santa Cruz and for governments across the County. The Commission also acknowledges that the City's FY 2021 Operating Budget presented represents a "working" budget that may be modified by the City Council at one or more points during the coming fiscal year. The Water Commission supports this approach to managing the City's budget in light of the continuing uncertainty and will continue working with Water Department staff to review ongoing fiscal performance and will provide further input to the Council related to fiscal matters as needed.

Through a series of staff presentations and discussions at publicly noticed Water Commission meetings during the winter and spring of 2020, the Water Commission participated in a detailed review of the Department's financial position, the Proposed CIP, Operating Budget and an updated 10-year Financial Pro Forma. The Financial Pro Forma is a product of the Department's financial model and provides a comprehensive, 10-year view of not only Department's revenue requirements, expenditures and projected needs for debt funding of capital investments, but also a picture of how well the Department is doing in building and maintaining reserves and achieving financial targets for debt service coverage and days' cash.

The Water Department's Recommended FY 2021 Operating and CIP budgets (Budgets) were developed to address the needs of the Water Department to provide a reliable and high quality supply of potable water to a population of approximately 100,000 people. The Commission's recommendations to the Council to approve the FY 2021 Budgets is the result of the Commission receiving and discussing information with staff on a diverse set of topics covering the projects and resources needed to meet water system and infrastructure reliability goals. The examples provided below include items with both direct and indirect relevance to the Department's Budgets and financial planning.

- February 2020: The Commission received a comprehensive overview of the Department's work to update its Emergency Response Plan which includes: basic emergency response concepts, incident action plans, including formalization of a Water Department Emergency Operations Center, and a strategy for using the California Water/Wastewater Agency Response Network (WARN) for mutual aid under emergency conditions.
- February 2020: Received a briefing on an analysis of customer water use characteristics that was completed as part of an update of the Water Shortage Contingency Plan (Plan) and provided input to staff regarding the development of the demand reduction elements of the Plan.
- February 2020: Received a briefing on the Department's approach to risk management for Capital Projects. Risk management is a critical component of effective development and management of capital projects and the Department's efforts to develop and apply this "best practice" technique will result in more cost effective use of capital resources over the long term.
- March 2020: Annually the Department presents an overview of its Capital Project work, both that completed in the past and current fiscal years and that planned for the future. Department staff provided descriptions of project purposes, including how water system customers will benefit from the projects. This presentation provides valuable context for the annual budget and CIP discussions which follow later in the spring.
- May 2020: The Commission received a status report on the Department's development of the Operating and Capital Investment Program, including a presentation of the "work-in-progress" updated Financial Pro Forma. The Operating budget is very much a status quo budget with no significant changes from the FY 2020 budget. The Capital Investment Program, however, cannot be described as "status quo" as it reflects the transition from planning and design activities for several large capital projects to construction phase of the work. As expected, the large planned capital expenditures are being implemented using very low interest State Revolving Fund loans, which will save water rate-payers millions of dollars in interest over the lives of the loans. Staff has worked diligently to obtain favorable financial treatment for these projects and is to be commended for those efforts.
- As has been the case with many other work products this spring, work on the Department's Budgets and Financial Pro Forma have been delayed due to the impacts of COVID 19. The material presented to the Commission at its May 4,

2020 meeting gave the Commission an opportunity to understand the Department's progress in developing plans for FY 2021, to ask questions and to give feedback about issues for follow up at the Commission's June 1, 2020 meeting.

- June 2020 – The Department's work on its Budgets and Financial Pro Forma between the May and June Commission meetings, providing comprehensive responses to the Commission's questions and feedback, and updating materials and the Financial Pro Forma with the latest information.

The Commission's active engagement and work with the Department over time has effectively prepared Water Commission members to understand the Water Department's current performance, and plans and strategies for the future. The Commission's recommendations to the Council on the Department's FY 2021 Operating Budget and FY 2021 to 2030 Capital Investment Program reflect the Commission's ongoing engagement with staff to identify, understand and effectively address the water system's challenges. However, neither the Commission nor the Department is solely focused on current and near term issues. Longer term issues that are definitely part of ongoing discussions include adapting to climate change and improving water system resilience in the face of the expected implications of climate change for more frequent extreme weather events such as droughts and floods, and strategies to maintain equitable access to water service for those in our community least able to pay.

Included with this letter is a set of attachments that the Water Commission reviewed and discussed in detail at its meetings throughout the year:

- Attachment 1 is the FY 2021 Operating and Capital Budgets;
- Attachment 2 is an example of Quarterly Financial Reports prepared for and distributed to the Water Commission;
- Attachment 3 covers analytics and trends for the Water Department Budget over the last five years; and
- Attachment 4 is the Water Department's 10-year Financial Pro Forma.

Given these materials as a backdrop, we would like to draw your attention to the following budget and CIP highlights (FY 2021 Pro Forma):

- Projected revenues for FY 2021 include \$43,967,000 in water rate revenue and \$1,250,000 in other revenues for a total of \$45,217,000. Additionally, the Department is looking at a potential need to issue debt in FY 21 and, if a decision is made to proceed, it is likely that a larger multi-year debt issuance will be planned rather than a smaller, single year issuance because doing so will be more cost-effective way to minimize the cost of issuing.
- Both the Newell Creek Inlet/Outlet Replacement project and the Graham Hill Water Treatment Plant (GHWTP) Concrete Tanks project will be funded through the Drinking Water State Revolving Fund program. Repayment of those loans will begin once construction has been completed for the projects in 2023 and 2024 respectively.
- The proposed Operating Budget for FY 2021 is \$36,277,000. The Operating Budget supports ongoing 24/7/365 water utility operations.
- Personnel changes for FY 2021 are limited to the addition of 1.0 Water Chief Financial Officer and the deletion of 1.0 Finance Manager. This change in staffing reflects the increased complexity of the Water Department's finances and the staffing level needed to manage them.

- The Department continues to invest in developing its own fund to support leveling annual resources needed for heavy equipment replacement and is making some up-front investments build the fund balance to help gain access to the long term benefits of this best practice approach to fleet management.
- The proposed CIP budget for FY 2021 totals \$75.9 million including unspent funds of \$12 million from FY 2020. Major progress is expected on several key CIP projects during FY 2021 including:
 - The Newell Creek Dam Inlet/Outlet project – This project was awarded to Obayashi Corporation for \$69M to begin May/June 2020. City staff will play key roles as this project moves into construction including filling roles as project manager, project engineer, environmental lead, and managing teams of consultants for construction management , technical advisory, and dispute resolution services. Staff will also be working closely on site with the State Division of Safety of Dams for ongoing inspection work.
 - Coast Pump Station 20-Inch Pipeline Replacement –This project was awarded recently to Vadnais Construction. Work is scheduled to begin in late May or early June, delayed slightly by the various hurdles presented by the pandemic. Due to schedule “float” built into the contract, however, the project is still expected to be completed on time.
 - GHWTP Concrete Tanks Replacement – Staff has prequalified nine contractors for this project which is expected to be authorized by the Council for bidding in late June. Construction is planned to begin the end of calendar year 2020.
 - Continued work on the implementation of the Council-approved Water Supply Advisory Committee recommended Water Supply Augmentation Strategy work plan including pilot testing Aquifer Storage and Recovery. We are well in to year two of pilot testing at the Beltz system wells, having just wrapped up Cycle 2 of the 3-cycle test at Beltz 8 and having completed a 3-cycle pilot test of Beltz 12 during the winter of 2018-2019. The current year’s work included the installation of a monitoring well at the Live Oak Beltz Treatment Plant and staff also worked to install a new monitoring well at Soquel Point. The new Soquel Point well collects water level and water quality data from the Santa Margarita Sandstone aquifer and is designed to play a role in ensuring that the aquifer is managed to prevent seawater intrusion and to comply with the recently competed Santa Cruz Mid-County Basin Groundwater Sustainability Plan. The existing well at Soquel Point is completed in the shallower Purisima Formation.
 - Main Replacements – Planning work has begun on Ocean Street Extension main replacement project that is needed as part of the overall plan to maintain water service to customers during the upcoming Graham Hill Water Treatment Plant Concrete Tank Replacement as well as the subsequent planned Graham Hill Water Treatment Plant Facility Improvement Project.

As the Water Commission has worked with the Water Department on budget and financial planning over the last several years, the Commission has received regular updates on the Department’s finances through the quarterly financial reports (Attachment 2) and annual comparative budget analytics (Attachment 3). Using these

reports, the Commission has been actively tracking several key indicators of financial health, for example, how actual revenues generated by water sales compare with revenue projections for water sales included in the 2016 Cost of Service and Water Rate Study. Tracking this metric helps both staff and Commissioners keep focused on how accurate our system is for projecting revenues. This and other analyses now in regular use by the Department's finance section and leadership team are helpful in ongoing financial planning and in the just initiated work to update the cost of service analysis and water rate structure.

Another major goal of the Department's budget analytics work is to highlight trends and understand major changes at both the organization and section level. Commissioners are always impressed by the staff's knowledge and ability to concisely describe circumstances and conditions across the department that influence actual spending from year to year and projected spending for the next fiscal year and beyond. Some key trends we inquired about during our review of the FY 2021 budget and CIP included:

- Projected performance in meeting the Department's 1.5 debt service coverage ratio and 180 days' cash;
- Anticipated bonded-debt interest rates;
- Expected ratio of "pay-as-you-go" versus debt financing of CIP; and
- Long-term projections of capital needs and financing strategies.

With respect to financial forecasting and being able to put the proposed budget and CIP in an appropriate and understandable context, Water Commissioners would like to especially commend the City and the Department for the financial analysis and modeling tools that they have developed and applied at the Water Department. For the last three years, the Commission's budget review has focused heavily on not just the figures included in the Department's proposed budget and CIP, but on what they mean in terms of potential customer rate increases and achieving the financial metrics that the City Council set for the Department when the Council adopted the Long Range Financial Plan (LRFP) in June of 2016. The key tool that the Commission uses in understanding how the Department's proposals fit into that plan is the 10 year Financial Pro Forma, a financial performance forecast that is generated by the Water Department's financial model (Attachment 4).

The one page Financial Pro Forma provides a long range view of operating and capital spending, performance related to key financial metrics such as debt service coverage, and illustrates how assumptions about capital spending, and operating costs including salary, benefits, and pension obligations, will affect revenue requirements over time. Department staff has been transparent in describing the key assumptions driving the financial model, and Water Commissioners have received detailed and thoughtful answers to questions about various aspects of the results presented in the Financial Pro Forma. The Commission's key take away from these efforts is that the Department has a well-considered long range financial plan and strategy – a plan which has continued to evolve and improve based on Department staff increasing their familiarity with this essential analytical and planning tool.

Mayor Cummings and Members of the Santa Cruz City Council

June 8, 2020

Page 6

In closing, at its June 1, 2020 meeting the Water Commission unanimously approved a motion in support of the City Council adopting the Water Department's proposed FY 2021 Operating and CIP budgets. Our careful review of these proposals shows that they have been developed using realistic assumptions that are well aligned with the financial policies and assumptions approved by the Council in its 2016 action approving the Department's LRFP.

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

Sincerely,

Doug Engfer
Chair, Santa Cruz Water Commission

cc: City Manager Martín Bernal
Members of the Santa Cruz Water Commission
Rosemary Menard, Santa Cruz Water Director

Attachments:

- Attachment 1: Water Department FY 2021 Proposed Operating and CIP Budgets
- Attachment 2: Example of Quarterly Financial Reports prepared for and distributed to the Water Commission
- Attachment 3: Water Department FY 2021 Budget Analytics
- Attachment 4: Water Department FY 2021 10-year Financial Pro Forma

An aerial photograph of a wide river flowing through a dense, green forest. The water is calm and reflects the sky and surrounding trees. A small island with a dock is visible in the lower-left foreground. The sky is overcast with soft, grey clouds.

Water

2021 Annual Budget

Water Department

Department Description

The mission of the Water Department is to ensure public health and safety by providing a clean, safe and reliable supply of water. We strive to serve the community in a courteous, efficient, cost effective and environmentally sustainable manner. We 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, treat and test it, move it, store it, distribute it, track how much is used and bill our customers for their use. We are at the end of the phone when customers call with questions and we are the smiling faces they see when they visit the department. We educate our customers about the quality of their water, how to use less water and provide them the tools to do so.

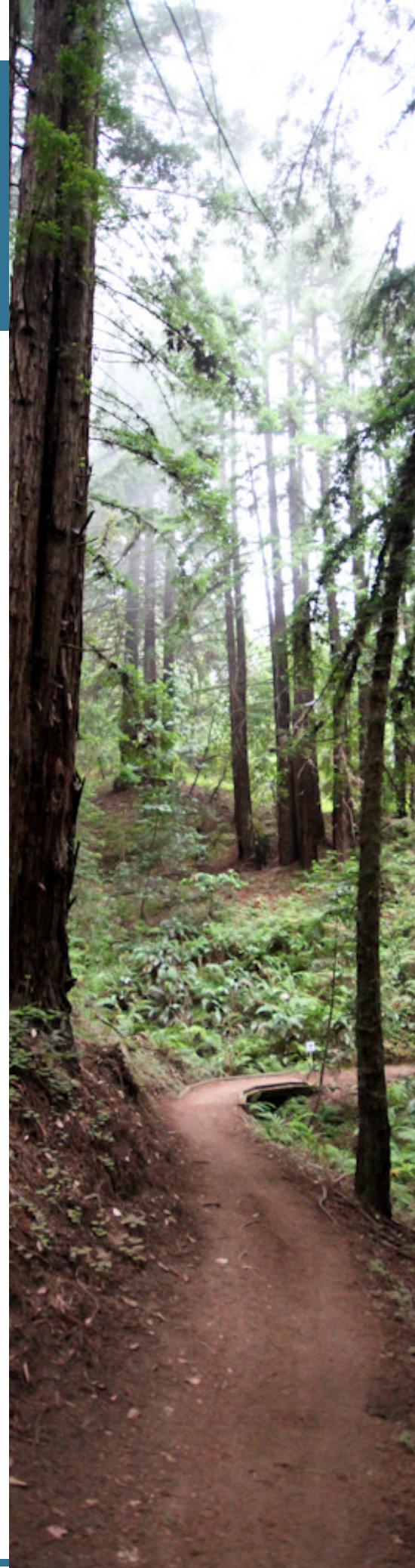
Our work includes the maintenance and operation of Loch Lomond Recreation area, as well as the protection of the Majors, Liddell, Newell Creek, Zayante and Laguna watersheds. We are stewards of an important community asset; the water system and all it entails, as well as a range of natural resources and ecosystems that we and many species depend upon and that are important elements of a sustainable community. We take pride in meeting the diverse needs of the broad region we serve. The Department is organized into operational and administrative sections.

Operational sections include Production, Water Quality Lab, Distribution, Water Resources and the Loch Lomond Recreation area. These sections are responsible for managing the watersheds; collecting, treating and testing untreated and treated water; and storing and distributing treated water to our customers.



Water Department

The administrative sections are comprised of Finance and Administration, Engineering, Conservation, Customer Service, and Community Relations. Staff in these sections provide leadership, plan and implement the Capital Investment Program (CIP), develop and implement financial plans, read meters, bill customers and collect revenues, help our customers conserve water and support active community outreach and engagement efforts covering a range of department activities. Everyday, Department staff work hard to produce and deliver millions of gallons of water to over 98,000 customers and perform all the related utility, land and natural resource management activities that often happen behind the scenes, but play a part in providing reliable, high quality water service to our community.



**WATER
DEPARTMENT SUMMARY**

	2019 Actual	Fiscal Year 2020			2021 Proposed Budget	
		Adopted Budget	Amended Budget	Estimated Actual		
EXPENDITURES BY CHARACTER:						
Personnel Services	14,174,510	16,837,336	15,686,336	13,173,880	17,039,331	
Services, Supplies, and Other Charges	12,553,247	16,058,444	15,936,598	13,453,043	15,724,969	
Capital Outlay	212,510	766,000	775,246	715,000	198,000	
Debt Service	2,247,613	10,138,026	10,188,026	10,188,026	3,458,545	
Total Expenditures	<u>29,187,880</u>	<u>43,799,806</u>	<u>42,586,206</u>	<u>37,529,949</u>	<u>36,420,844</u>	
 EXPENDITURES BY ACTIVITY:						
Water Administration	7101	5,697,441	6,696,842	6,336,777	5,741,675	6,298,426
Water Engineering	7102	2,886,711	3,347,201	2,816,765	2,787,294	3,058,342
Water Customer Services	7103	1,974,229	2,015,751	2,030,870	1,854,800	2,230,293
Water Conservation	7104	913,474	1,240,293	1,240,293	1,017,400	1,498,904
Water Resources Management	7105	1,581,505	2,954,266	3,056,409	1,477,284	2,821,726
Water Production	7106	6,002,756	7,404,445	7,332,056	6,231,306	7,668,169
Water Quality Control	7107	1,321,358	1,775,267	1,783,812	1,679,108	1,843,949
Water Distribution	7108	4,212,029	5,163,688	5,097,509	4,484,758	4,950,576
Water Recreation Facility	7109	1,102,595	1,286,763	1,290,763	1,031,483	1,409,979
Water Operations	7110	-	321,983	610,991	441,582	677,708
Water Meter Shop	7113	1,248,169	1,455,281	851,935	645,233	504,228
Water Debt Service	7140	2,247,613	10,138,026	10,138,026	10,138,026	3,458,545
Total Expenditures		<u>29,187,880</u>	<u>43,799,806</u>	<u>42,586,206</u>	<u>37,529,949</u>	<u>36,420,844</u>
 RESOURCES BY FUND:						
Water Fund (711)		36,821,568	74,356,868	63,504,001	36,817,988	42,500,851
Water Rate Stabilization Fund (713)		3,104,137	3,342,000	3,208,000	2,900,000	3,163,368
Water System Development Charges Fund (715)		660,495	820,000	821,109	500,000	820,000
Total Resources		<u>40,586,200</u>	<u>78,518,868</u>	<u>67,533,110</u>	<u>40,217,988</u>	<u>46,484,219</u>

SANTA CRUZ WATER DEPARTMENT FINANCIAL REPORT

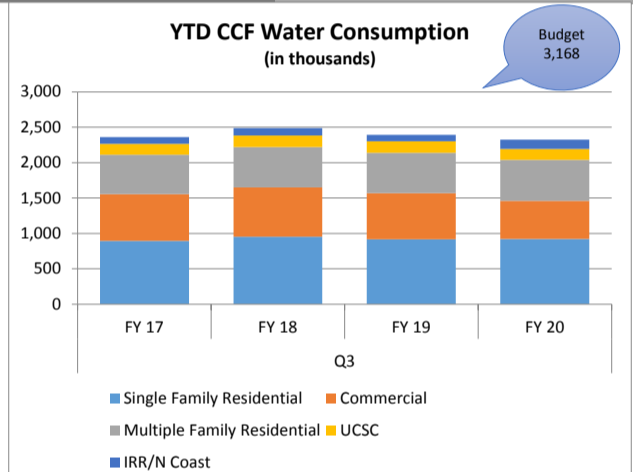
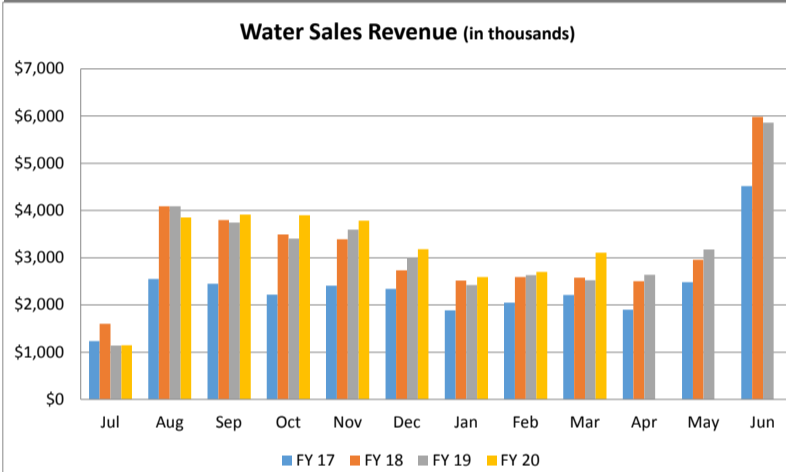
Fiscal Year 2019/20 through March 31, 2020



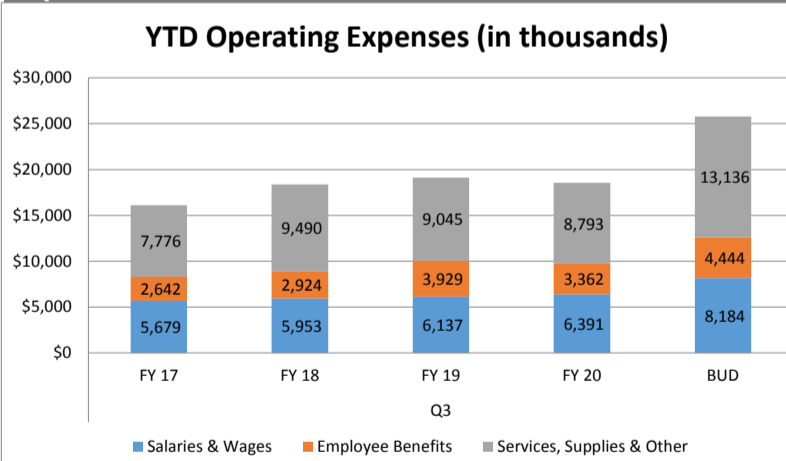
Financial Summary

	FY 2020 Adjusted			Actual vs. YTD Budget	
	Budget	YTD Budget	Actual	Variance \$ + / (-)	Variance % + / (-)
Operating Revenues					
Water Sales	40,484,000	30,363,000	28,253,666	(2,109,334)	(7%)
Other Charges for Services	1,273,268	954,951	966,559	11,608	1%
Other Revenues	385,353	289,015	165,828	(123,187)	(43%)
Investment Earnings	225,240	168,930	61,660	(107,270)	(63%)
Total Operating Revenues	42,367,861	31,775,896	29,447,713	(2,328,183)	(7%)
Operating Expenses					
Salaries & Wages	9,712,454	7,284,341	6,390,983	(893,358)	(12%)
Employee Benefits	5,924,882	4,443,662	3,362,190	(1,081,472)	(24%)
Services, Supplies & Other	15,534,059	11,650,544	8,792,768	(2,857,776)	(25%)
Capital Outlay	775,246	581,435	300,941	(280,494)	(48%)
Debt Service - Principal & Interest	2,542,786	1,907,090	665,821	(1,241,269)	(65%)
Total Operating Expenses	31,946,641	23,959,981	18,846,882	(5,113,099)	(21%)
Net Operating Revenue (Loss)	10,421,220	7,815,915	10,600,831	2,784,916	36%
Debt Service Coverage (Target >= 1.50x)	4.10x	4.10x	15.92x		

Revenues



Expenses



Cash

Fund Balances	YTD Balance	Year End
711 - Enterprise Operations	15,510,637	8,470,000
713 - Rate Stabilization	10,783,492	10,000,000
715 - System Development Charges	4,187,249	N/A
716 - 90 Day Operating Reserve	6,732,810	8,470,000
717 - Emergency Reserve	3,136,756	3,100,000
718 - Mount Herman June Beetle Endowment	143,611	144,000
719 - Equipment Replacement	702,115	700,000
Days' Cash (Includes only Funds 711 & 716)	254.1	193.5
Days' Cash Target	180.0	180.0

Project Titles	Life of Project Totals		Current FY Totals		Current Status
	Est Project Costs FY19 - FY38	Actuals + Enc thru 3/31/20	FY20 Estimated Expenditures ⁽¹⁾	Actuals + Enc thru 3/31/20	
WATER SUPPLY RESILIENCY & CLIMATE ADAPTATION PROJECTS					
<i>Water Supply Augmentation Strategy</i>					
Beltz Wellfield Aquifer Storage and Recovery					
ASR Planning	1,423,751	3,304,652	1,154,751	1,829,030	Planning
ASR Mid County Existing Infrastructure	2,425,000	-	-	-	Planning
ASR Mid County New Wells	16,580,000	-	-	-	Not Initiated
Santa Margarita Aquifer Storage and Recovery and In Lieu Water Transfers and Exchanges					
ASR Santa Margarita Groundwater	15,715,000	-	-	-	Not Initiated
ASR New Pipelines	28,580,000	-	-	-	Not Initiated
In Lieu Transfers and Exchanges	-	-	-	-	Planning
Studies, Recycled Water, Climate Change, Aquifer Storage and Recovery					
Water Supply Augmentation	720,000	443,972	120,000	163,570	Planning
Recycled Water Feasibility Study	350,000	565,689	90,000	14,442	Planning
River Bank Filtration Study	5,537,000	731,849	235,000	442,193	Planning
<i>Subtotal Water Supply Augmentation Strategy</i>	71,330,751	5,046,162	1,599,751	2,449,235	
<i>Subtotal Water Supply Resiliency and Climate Adaptation Projects</i>	71,330,751	5,046,162	1,599,751	2,449,235	
INFRASTRUCTURE RESILIENCY AND CLIMATE ADAPTATION					
<i>Raw Water Storage Projects</i>					
NCD I/O Replacement Project	105,000,000	8,987,776	5,029,273	1,896,832	Design
Aerators at Loch Lomond	550,000	30,363	134,775	21,775	Design
<i>Subtotal Raw Water Storage Projects</i>	105,550,000	9,018,139	5,164,048	1,918,607	
<i>Raw Water Diversion and Groundwater System Projects</i>					
Laguna Creek Diversion Retrofit	3,122,000	836,727	639,500	730,953	Design
North Coast System Majors Diversion Rehab	4,123,500	118,508	-	6,937	On-hold
Tait Diversion Rehab/Replacement	5,212,500	337,540	150,047	241,586	PD/Feasibility
Coast Pump Station Rehab/Replacement	7,304,000	-	-	-	Planning
Beltz 10 and 11 Rehab & Development	285,000	184,955	2,810	2,810	Planning
Felton Diversion PS Assessment	3,444,000	124,178	107,000	91,511	Planning
<i>Subtotal Raw Water Diversion and Groundwater System Projects</i>	23,491,000	1,601,908	899,357	1,073,797	
<i>Raw Water Transmission</i>					
Coast Pump Station 20-inch RW Pipeline Replacement	6,566,863	879,162	3,376,940	275,731	Design
Newell Creek Pipeline Rehab/Replacement	1,022,000	734,596	507,600	128,681	Planning
Newell Creek Pipeline Felton/GHWTP	28,310,500	-	122,667	-	Planning
Newell Creek Pipeline Felton/Loch Lomond	24,056,500	-	-	-	Planning
Brackney Landslide Area Pipeline Risk Reduction	5,076,000	-	101,750	-	Planning
North Coast Pipeline Repair/Replacement - Planning	838,000	195,119	-	-	Planning
North Coast Pipeline Repair/Replacement - Ph 4	14,578,000	-	-	-	Not Initiated
North Coast Pipeline Repair/Replacement - Ph 5	14,578,000	-	-	-	Not Initiated
<i>Subtotal Raw Water Transmission</i>	95,025,863	1,808,877	4,108,957	404,412	
<i>Surface Water Treatment</i>					
GHWTP Tube Settler Replacement	1,499,268	1,710,647	1,063,500	1,489,993	Post Construction
GHWTP Flocculator Rehab/Replacement	1,847,000	1,318,500	640,000	1,197,803	Construction
GHWTP Concrete Tanks Replacement	44,000,000	4,596,754	1,016,500	1,846,406	Design
GHWTP Facilities Improvement Project	96,025,000	2,898,996	1,087,430	566,348	Planning
GHWTP Filter Rehab and Upgrades	5,837,300	5,837,026	18,000	18,000	Post Construction
Source Water Data Project ⁽²⁾	657,068	465,536	27,500	27,486	Ongoing
<i>Subtotal Surface Water Treatment</i>	149,865,636	16,827,459	3,852,930	5,146,036	
<i>Distribution System Storage, Water Main and Pressure Regulation, and Metering Projects</i>					
University Tank No. 4 Rehab/Replacement	5,691,000	36,881	32,000	-	Planning
University Tank No. 5 Rehab/Replacement	3,581,000	4,260,359	1,512,000	1,872,580	Post Construction
Pressure Regulating Stations	140,000	181,943	50,500	50,508	Ongoing
Meter Replacement Project	11,000,000	303,039	350,500	138,841	Ongoing
Engineering and Distribution Main Replacement Projects	16,810,000	18,875,499	4,940,000	4,805,535	Ongoing
Distribution System Water Quality Improvements	75,000	75,347	75,347	75,347	Planning
Facility & Infrastructure Improvements	6,800,000	-	-	-	Ongoing
Bay Street Reservoir	25,375,072	25,279,300	150,000	9,500	Post Construction
<i>Subtotal Distribution Storage, Wmain Pressure Reg, and Metering</i>	69,472,072	49,012,368	7,110,347	6,952,311	
<i>Subtotal Infrastructure Resiliency and Climate Adaptation</i>	443,404,571	78,268,751	21,135,639	15,495,163	
OTHER RISK MANAGEMENT AND RISK REDUCTION PROJECTS					
<i>Site Safety and Security</i>					
Security Camera & Building Access Upgrades	360,000	208,681	93,185	31,685	Ongoing
Programmable Logic Controllers	160,000	186,956	50,000	31,382	Ongoing
Loch Lomond Facility Improvements	225,000	234,460	72,000	71,802	Post Constr
Spoils and Stockpile Handling	350,000	253,022	3,013	3,013	Post Constr
Newell Creek Access Rd Bridge	1,015,000	320,343	248,159	248,159	Post Constr
Carbonera Tank Rd	488,000	481,497	357,622	357,622	Post Constr
<i>Subtotal Site Safety and Security</i>	2,598,000	1,684,959	823,978	743,663	
<i>Staff Augmentation</i>					
Water Program Administration ⁽³⁾	25,000,000	3,532,701	3,500,000	3,532,701	Ongoing
<i>Subtotal Staff Augmentation</i>	25,000,000	3,532,701	3,500,000	3,532,701	
<i>Contingency</i>					
Management Reserve ⁽⁴⁾	50,000,000	-	2,057,000	-	Ongoing
<i>Subtotal Contingency</i>	50,000,000	0	2,057,000	0	
<i>Storage for Emergency Facility and System Repair Tools and Equipment</i>					
Bay Street Reservoir Storage Building	150,000	-	-	-	Design
Union/Locust Admin Building Back Up Power Generator	150,000	-	-	-	Not Initiated
<i>Subtotal Storage for Emergency and System Repair</i>	300,000	0	0	0	
<i>Subtotal Other Risk Management and Risk Reduction Projects</i>	77,898,000	5,217,660	6,380,978	4,276,364	
GRAND TOTAL	592,633,322	88,532,573	29,116,368	22,220,762	

⁽¹⁾ Planned expenditures do not include purchase order encumbrances.

⁽²⁾ Expenses for the Source Water Data Project will be moved to the operating budget.

⁽³⁾ Staff augmentation costs are transferred to specific projects during year-end process.

⁽⁴⁾ FY20 Management Reserve costs are included in Water Program Administration.

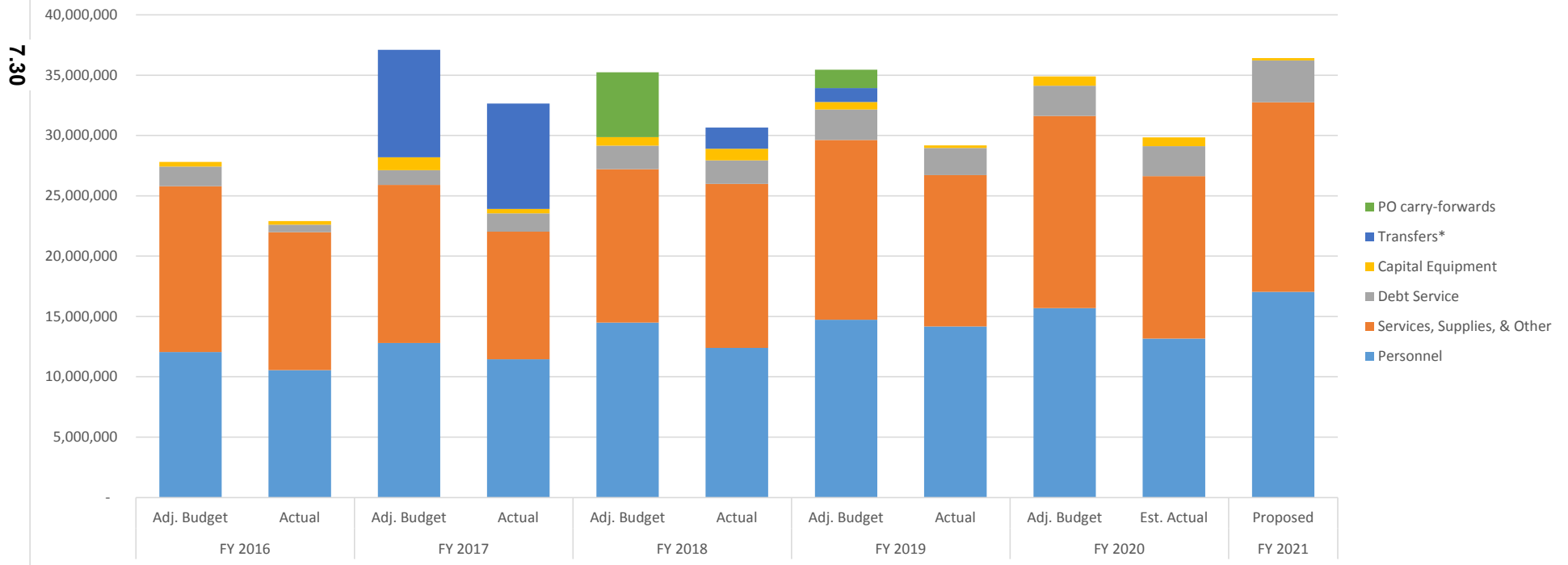
Proposed FY 2021 Operating Budget: Fund 711 & 715

BY CATEGORY OF EXPENSE

	FY 2016		FY 2017		FY 2018		FY 2019		FY 2020		FY 2021
	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Actual	Adj. Budget	Est. Actual	Proposed
Personnel	12,045,806	10,552,312	12,802,461	11,465,387	14,501,384	12,406,660	14,724,425	14,174,510	15,686,336	13,173,880	17,039,331
Services, Supplies, & Other	13,761,627	11,431,083	13,091,074	10,563,256	12,717,698	13,582,875	14,903,530	12,553,247	15,936,598	13,453,043	15,724,969
Debt Service	1,623,943	629,061	1,220,550	1,515,413	1,949,327	1,944,803	2,535,842	2,247,613	2,492,786	2,492,786	3,458,545
Capital Equipment	367,484	286,108	1,083,050	369,864	692,680	965,360	604,034	212,510	775,246	715,000	198,000
Transfers*	-	-	8,909,823	8,743,468	-	1,757,655	1,163,284				
PO carry-forwards		-		-	5,372,805	-	1,513,883	-			-
TOTAL Adjusted Budget	27,798,861	22,898,563	37,106,958	32,657,388	35,233,893	30,657,353	35,444,998	29,187,880	34,890,966	29,834,709	36,420,845

* Transfers included contributions to Public Art, Corp. Yard CIP Upgrades and transfers between Water Enterprise Funds

Historical Budget Comparison with FY 2021 Proposed Budget (BY CATEGORY OF EXPENSE)



Proposed FY 2021 Operating Budget: Fund 711

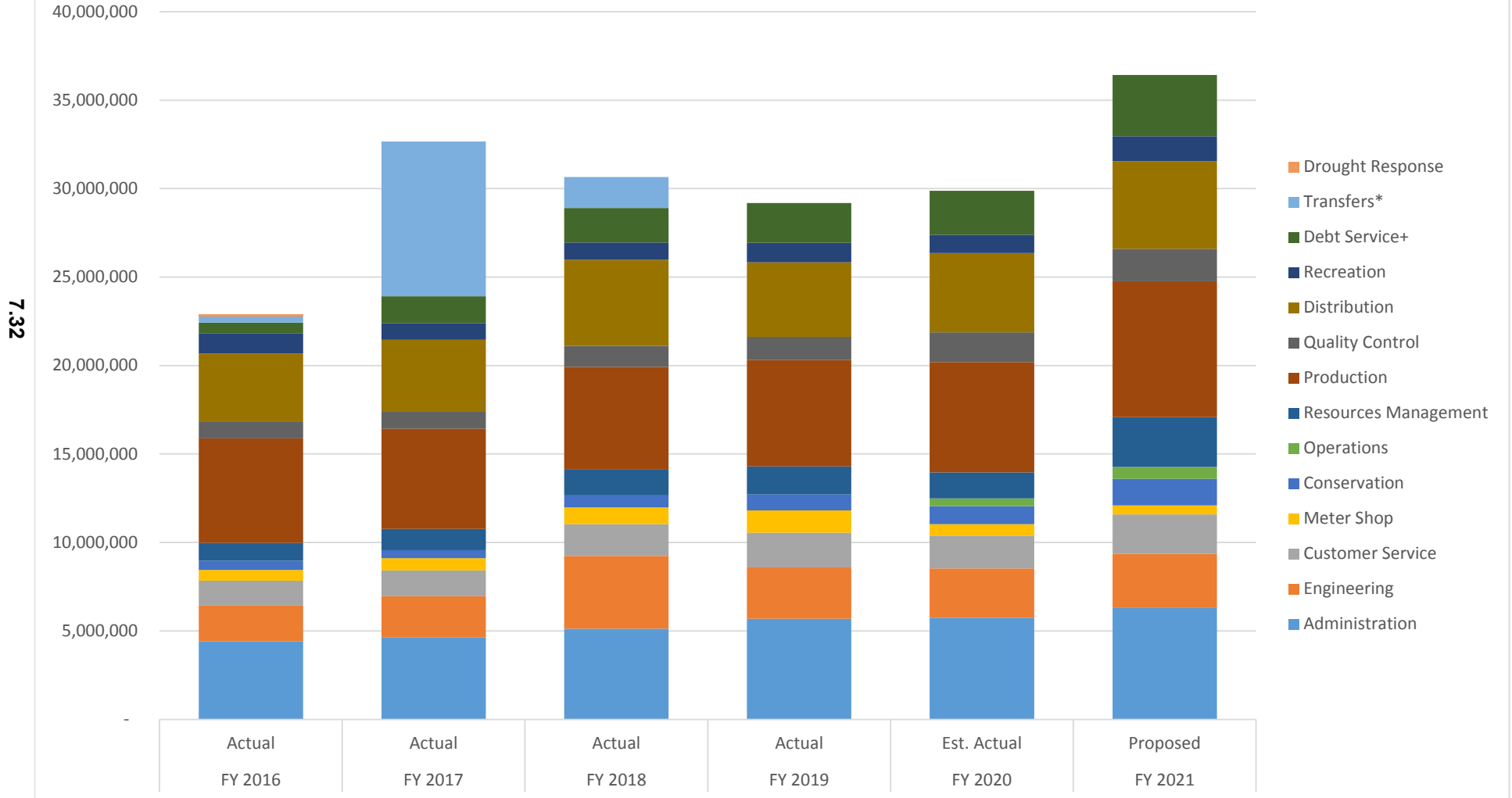
BY SECTION

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020 to FY 2021
	Actual	Actual	Actual	Actual	Est. Actual	Proposed	% Change
Administration	4,423,118	4,638,890	5,126,889	5,697,441	5,741,675	6,298,426	9.7%
Engineering	2,033,528	2,318,507	4,118,807	2,886,711	2,787,294	3,058,342	9.7%
Customer Service	1,379,905	1,467,008	1,783,540	1,974,229	1,854,800	2,230,293	20.2%
Meter Shop	608,770	693,555	956,319	1,248,169	645,233	504,228	(21.9%)
Conservation	521,443	446,381	679,791	913,474	1,017,400	1,498,904	47.3%
Operations			-	-	441,582	677,708	53.5%
Resources Management	1,009,331	1,194,622	1,455,311	1,581,505	1,477,284	2,821,726	91.0%
Production	5,908,516	5,678,113	5,803,113	6,002,756	6,231,306	7,668,169	23.1%
Quality Control	955,162	948,151	1,196,124	1,321,358	1,679,108	1,843,949	9.8%
Distribution	3,832,777	4,066,836	4,854,452	4,212,029	4,484,758	4,950,576	10.4%
Recreation	1,131,212	946,444	980,551	1,102,595	1,031,483	1,409,979	36.7%
Debt Service+	629,061	1,515,413	1,944,803	2,247,613	2,492,786	3,458,545	38.7%
Transfers*	370,000	8,743,468	1,757,655				
Drought Response	95,741	-	-	-	-		
TOTAL	22,898,563	32,657,388	30,657,353	29,187,880	29,884,709	36,420,845	21.9%

* Transfers included contributions to Public Art, Corp. Yard CIP Upgrades and transfers between Water Enterprise Funds

+ FY 2020 Debt Service has been corrected and differs from the Proposed Budget

Historical Budget Comparison with FY 2021 Proposed Budget (BY DEPARTMENT SECTION)



Budget Trends by Percent

	% of Change Comparing Actuals Expenditures					
	FY 2016 to FY 2017	FY 2017 to FY 2018	FY 2018 to FY 2019	FY 2019 to FY 2020	Average	FY 2016 to 2020
Personnel	8.7%	8.2%	1.5%	(7.1%)	2.8%	24.8%
Services, Supplies, & Other	(7.6%)	28.6%	17.2%	7.2%	11.3%	17.7%
Debt Service	140.9%	28.3%	30.1%	10.9%	52.6%	296.3%
Capital Equipment	29.3%	161.0%	(12.8%)	236.5%	103.5%	149.9%
TOTAL (w/o transfers)	25.0%	20.8%	(2.7%)	2.2%	11.3%	30.3%

	% of Change Comparing Budgeted Amounts						
	FY 2016 to FY 2017	FY 2017 to FY 2018	FY 2018 to FY 2019	FY 2019 to FY 2020	FY 2020 to FY 2021	Average	FY 2016 to 2021
Personnel	6.3%	13.3%	1.5%	18.7%	8.6%	9.7%	41.5%
Services, Supplies, & Other	(4.9%)	(2.9%)	17.2%	9.7%	(1.3%)	3.6%	14.3%
Debt Service	(24.8%)	59.7%	30.1%	30.4%	38.7%	26.8%	113.0%
Capital Equipment	194.7%	(36.0%)	(12.8%)	(37.4%)	(74.5%)	6.8%	(46.1%)
TOTAL (w/o transfers)	4.4%	25.0%	20.8%	(2.7%)	4.4%	10.4%	31.0%

	Budget vs Actuals				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personnel	(12.4%)	(10.4%)	(14.4%)	(3.7%)	(16.0%)
Services, Supplies, & Other	(16.9%)	(19.3%)	6.8%	(15.8%)	(15.6%)
Debt Service	(61.3%)	24.2%	(0.2%)	(11.4%)	0.0%
Capital Equipment	(22.1%)	(65.8%)	39.4%	(64.8%)	(7.8%)
TOTAL (w/o transfers)	(17.6%)	(12.0%)	(14.9%)	(11.9%)	(14.5%)

	Percent of Total Budget					
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Administration	19.3%	14.2%	16.7%	19.5%	19.2%	17.3%
Engineering	8.9%	7.1%	13.4%	9.9%	9.3%	8.4%
Customer Service	6.0%	4.5%	5.8%	6.8%	6.2%	6.1%
Meter Shop	2.7%	2.1%	3.1%	4.3%	2.2%	1.4%
Conservation	2.3%	1.4%	2.2%	3.1%	3.4%	4.1%
Operations				0.0%	1.5%	1.9%
Resources Management	4.4%	3.7%	4.7%	5.4%	4.9%	7.7%
Production	25.8%	17.4%	18.9%	20.6%	20.9%	21.1%
Quality Control	4.2%	2.9%	3.9%	4.5%	5.6%	5.1%
Distribution	16.7%	12.5%	15.8%	14.4%	15.0%	13.6%
Recreation	4.9%	2.9%	3.2%	3.8%	3.5%	3.9%
Debt Service	2.7%	4.6%	6.3%	7.7%	8.3%	9.5%
Transfers	1.6%	26.8%	5.7%	0.0%	0.0%	0.0%
Drought Response	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

City of Santa Cruz Water Department Pro-Forma Projections

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues											
Rate Revenue											
Fixed Fee Revenue	\$ 3,572,322	\$ 3,858,108	\$ 4,166,757	\$ 4,500,097	\$ 4,860,105	\$ 5,248,913	\$ 5,668,826	\$ 6,122,333	\$ 6,612,119	\$ 7,141,089	\$ 7,712,376
Volumetric Revenue	\$ 36,839,330	\$ 39,786,476	\$ 42,969,394	\$ 46,406,946	\$ 50,119,501	\$ 54,129,061	\$ 58,459,386	\$ 63,136,137	\$ 68,187,028	\$ 73,641,990	\$ 79,533,350
Elevation Surcharges	\$ 334,080	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788	\$ 352,788
Rate Stabilization Revenue	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368	\$ 3,163,368
Manual Revenue Adjustment (Fire Service)	\$ 57,650	\$ 60,658	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164	\$ 63,164
Total Rate Revenue	\$ 43,966,750	\$ 47,221,398	\$ 50,715,472	\$ 54,486,363	\$ 58,558,927	\$ 62,957,295	\$ 67,707,533	\$ 72,837,790	\$ 78,378,468	\$ 84,362,399	\$ 87,661,678
Non-Rate Revenue											
Other Income	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ -
Investment Income	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ -
Total Non-Rate Revenue	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ -
Total Revenues	\$ 45,216,750	\$ 48,471,398	\$ 51,965,472	\$ 55,736,363	\$ 59,808,927	\$ 64,207,295	\$ 68,957,533	\$ 74,087,790	\$ 79,628,468	\$ 85,612,399	\$ 87,661,678
Operating Expenses											
Personnel	\$ 17,039,332	\$ 17,921,808	\$ 18,864,176	\$ 19,871,239	\$ 20,948,216	\$ 22,100,778	\$ 23,335,087	\$ 24,657,842	\$ 26,076,322	\$ 27,598,444	\$ 29,232,814
Services, Supplies & Other	\$ 15,724,969	\$ 16,511,217	\$ 17,336,778	\$ 18,203,617	\$ 19,113,798	\$ 20,069,487	\$ 21,072,962	\$ 22,126,610	\$ 23,232,940	\$ 24,394,587	\$ 25,614,317
Capital Outlay	\$ 198,000	\$ 207,900	\$ 218,295	\$ 229,210	\$ 240,670	\$ 252,704	\$ 265,339	\$ 278,606	\$ 292,536	\$ 307,163	\$ 322,521
Other Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 32,962,300	\$ 34,640,925	\$ 36,419,249	\$ 38,304,065	\$ 40,302,684	\$ 42,422,969	\$ 44,673,388	\$ 47,063,058	\$ 49,601,799	\$ 52,300,194	\$ 55,169,652
Net Operating Revenues	\$ 12,254,450	\$ 13,830,473	\$ 15,546,223	\$ 17,432,298	\$ 19,506,243	\$ 21,784,326	\$ 24,284,145	\$ 27,024,732	\$ 30,026,669	\$ 33,312,205	\$ 32,492,026
Capital Expenditures											
Grant Funded	\$ 79,503,628	\$ 85,862,837	\$ 71,522,016	\$ 48,033,368	\$ 66,888,226	\$ 103,536,556	\$ 88,982,756	\$ 25,765,360	\$ 16,482,472	\$ 3,183,665	\$ -
SRF Funded	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
WIFIA Funded	\$ 54,230,844	\$ 58,858,126	\$ 32,547,872	\$ 2,540,495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Currently Funded	\$ 12,100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pay-Go Funded	\$ 5,821,151	\$ 3,575,923	\$ 2,449,253	\$ 4,578,422	\$ 6,559,977	\$ 8,130,061	\$ 10,615,926	\$ 12,675,663	\$ 13,178,519	\$ 3,183,665	\$ -
Debt Funded	\$ 7,351,633	\$ 23,428,789	\$ 36,524,891	\$ 40,914,451	\$ 60,328,249	\$ 95,406,495	\$ 78,366,830	\$ 13,089,697	\$ 3,303,953	\$ 0	\$ -
Debt Service	\$ 3,315,081	\$ 6,527,080	\$ 6,636,242	\$ 10,998,782	\$ 15,067,962	\$ 18,297,441	\$ 23,406,542	\$ 27,670,202	\$ 28,836,411	\$ 28,863,793	\$ 28,868,806
Net Income	\$ 3,118,217	\$ 3,727,470	\$ 6,460,727	\$ 1,855,094	\$ (2,121,696)	\$ (4,643,177)	\$ (9,738,323)	\$ (13,321,133)	\$ (11,988,261)	\$ 1,264,748	\$ 3,623,220
Total Cash Balances											
Beginning Total Cash Balance	\$ 28,053,045	\$ 31,171,262	\$ 34,898,732	\$ 41,359,454	\$ 43,214,547	\$ 41,092,851	\$ 36,449,675	\$ 26,711,351	\$ 13,390,219	\$ 1,401,957	\$ 2,666,705
I-Bank Reimbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Calculated Change to Cash Balances	\$ 3,118,217	\$ 3,727,470	\$ 6,460,722	\$ 1,855,094	\$ (2,121,696)	\$ (4,643,177)	\$ (9,738,323)	\$ (13,321,133)	\$ (11,988,261)	\$ 1,264,748	\$ 3,623,220
Ending Total Cash Balance	\$ 31,171,262	\$ 34,898,732	\$ 41,359,454	\$ 43,214,547	\$ 41,092,851	\$ 36,449,675	\$ 26,711,351	\$ 13,390,219	\$ 1,401,957	\$ 2,666,705	\$ 6,289,925
Beginning Cash Balances by Fund											
Fund 717 (Emergency Reserve)	\$ 3,120,235	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 1,401,957	\$ 2,666,705
Fund 713 (Rate Stabilization)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Fund 716 (90 Day Operating Reserve)	\$ 6,732,810	\$ 8,127,690	\$ 8,541,598	\$ 8,980,089	\$ 9,444,838	\$ 9,937,648	\$ 10,460,458	\$ 11,015,356	\$ 290,219	\$ -	\$ -
Fund 711 (Water Operations)	\$ 8,200,000	\$ 9,943,571	\$ 13,257,134	\$ 19,279,365	\$ 20,669,709	\$ 18,055,203	\$ 12,889,216	\$ 2,595,995	\$ -	\$ -	\$ -
Changes to Cash Balances by Fund											
Fund 717 (Emergency Reserve)	\$ (20,235)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,698,043)	\$ 1,264,748	\$ 433,295
Fund 713 (Rate Stabilization)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund 716 (90 Day Operating Reserve)	\$ 1,394,880	\$ 413,908	\$ 438,491	\$ 464,749	\$ 492,810	\$ 522,810	\$ 554,898	\$ (10,725,137)	\$ (290,219)	\$ -	\$ -
Fund 711 (Water Operations)	\$ 1,743,571	\$ 3,313,562	\$ 6,022,231	\$ 1,390,344	\$ (2,614,506)	\$ (5,165,987)	\$ (10,293,221)	\$ (2,595,995)	\$ -	\$ -	\$ -
Ending Cash Balances by Fund											
Fund 717 (Emergency Reserve)	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 1,401,957	\$ 2,666,705	\$ 3,100,000
Fund 713 (Rate Stabilization)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Fund 716 (90 Day Operating Reserve)	\$ 8,127,690	\$ 8,541,598	\$ 8,980,089	\$ 9,444,838	\$ 9,937,648	\$ 10,460,458	\$ 11,015,356	\$ 290,219	\$ -	\$ -	\$ -
Fund 711 (Water Operations)	\$ 9,943,571	\$ 13,257,134	\$ 19,279,365	\$ 20,669,709	\$ 18,055,203	\$ 12,889,216	\$ 2,595,995	\$ -	\$ -	\$ -	\$ -
Coverage and Targets											
Debt Service Coverage (W/Out Reserves)	3.70x	2.12x	2.34x	1.58x	1.29x	1.19x	1.04x	0.98x	1.10x	1.11x	1.11x
Debt Service Coverage Target	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x
Debt Service Coverage (W/Reserves)	13.10x	7.47x	8.57x	5.51x	4.02x	3.18x	2.18x	1.46x	1.09x	1.25x	1.34x
Days' Cash (Includes only Funds 711 & 716)	200	230	283	287	254	201	111	2	0	0	0
Days' Cash Target	180	180	180	180	180	180	180	180	180	180	180



WATER COMMISSION
INFORMATION REPORT

DATE:

05/28/2020

AGENDA OF: June 1, 2020

TO: Water Commission

FROM: Matt Zeman, Engineering Associate

SUBJECT: Briefing on Graham Hill Water Treatment Plant Facilities Improvement Project

RECOMMENDATION: Receive a briefing on the Graham Hill Water Treatment Plant Facilities Improvement Project including staff's recommendation to pursue the use of the best value project delivery method, Progressive Design Build.

BACKGROUND: Major components of the Water Department's capital investment program are located at the Graham Hill Water Treatment Plant. Recent and ongoing projects include major maintenance repairs to the flocculation, sedimentation and filtration basins, and replacement of three of the four concrete tanks. Simultaneous with these component repair and replacement projects, staff has been developing the Facilities Improvement Project, or FIP. The FIP is a comprehensive evaluation of the facility that identifies the most cost-effective improvements to meet water treatment objectives and improve overall reliability and resiliency of the plant. Staff has been working with HDR since December 2017 completing a comprehensive condition assessment of the facility, evaluating alternative treatment processes, pilot testing treatment alternatives, as well as developing a plan for non-treatment problems such as parking, lack of storage, deficient office space, etc. Staff is currently reviewing the 10% design.

The City has recently amended the Santa Cruz Municipal Code, establishing the use, award and evaluation of best value project delivery methods for construction projects. Best Value project delivery is different from the conventional design-bid-build method in that the engineering, design and construction services can be procured from a single entity (comprised of all-required disciplines such as engineers, architects and construction firms) through a competitive request for proposals process, as opposed to being procured through individual entities in a sequential design-bid-build process. Some of the reported advantages of Best Value project delivery include:

- Reduced project costs
- Expedited schedules for project completion

- Innovative solutions to design and construction challenges
- Improved quality and owner satisfaction with the projects

Until recently Section 1415 of the City Charter precluded the use of Best Value procurements, thereby requiring the use of traditional design-bid-build approach. A change to the City Charter was proposed to permit Best Value contracting as an alternative to design-bid-build to be used as appropriate and the proposed charter amendment, Measure W, was approved by local voters in the March 3, 2020 election. On April 7, 2020 Council, through Resolution No. NS-29,644, confirmed and approved the election results, and authorized the Mayor to execute the amendments to Section 1415 of the City Charter.

With the option to consider delivering projects using Best Value contracting methods, the Water Department will be in a better position to accomplish capital improvement projects (that include major upgrades, repairs and replacement of the City’s water storage, treatment and transmission infrastructure) as efficiently as possible. Through a series of workshops, staff considered and scored over 20 criteria which highlighted the relative strengths of the common Best Value delivery methods and the traditional design-bid-build process. After careful consideration of the FIP, staff is recommending the progressive design build approach. The primary reasons for proceeding with progressive design build for this project instead of design-bid-build are:

- **Cost:** Ability to establish higher degree of cost certainty earlier in the design process and adjust scope if pricing is higher than expected (design to budget)
- **Schedule:** Flexibility to align project schedule with external funding deadlines (for example those imposed by the Water Infrastructure Finance and Innovation Program)
- **Risk:** Ability to maintain operation during construction, and equitably negotiate and share risk between City, Designer, and Contractor.

As a large project requiring several Council authorizations, staff is exercising the approach taken with the Newell Creek Dam Inlet/Outlet Replacement and Concrete Tanks projects by seeking Water Commission recommendations of project elements prior to subsequent action by City Council. Council actions on the FIP will include:

- June 23, 2020: Recommendation on delivery approach. (The charter amendment requires Council authorization prior to or concurrent with the award of a contract)
- May 2021: Award of progressive design build contract
- October 2022: Certification of Final Environmental Impact Report
- December 2023: Approval of construction guaranteed maximum price agreement

As a project following the progressive design build model, the next time staff will ask the Water Commission to support staff’s recommendation will be prior to the October 2022 Council meeting. (That said, staff is seeking funding through the WIFIA program and may also apply for additional SRF funding; these two processes will also require separate Council authorization.)

DISCUSSION:

Following the model established with the Water Commission for projects of this type, below are the four major categories describing the project.

PROJECT SUMMARY/TECHNICAL

The Graham Hill Water Treatment Plant (GHWTP) was commissioned in the 1960's as a surface water treatment plant. The GHWTP currently treats water from Newell Creek (following storage in Loch Lomond Reservoir), the San Lorenzo River, and the North Coast sources.

In 2012, a work plan was developed specific to the GHWTP to identify projects to address aging infrastructure, further enhance plant reliability, and to meet current and projected-future water quality regulations. Subsequent work in 2015 by the Water Supply Advisory Committee provided guidance to develop additional water supply for use during drought years. As mentioned above, several large projects are helping to accomplish these goals: filter upgrades completed in 2017, tube settler replacement completed in 2019, flocculator replacement to be completed in 2020, replacement of three concrete tanks to begin construction in late 2020, and the FIP to begin construction in 2024.

The FIP's major components and process upgrades include:

- Replace rapid mix basin with flash mix structure
- Replace existing pretreatment processes with high rate clarification
- Convert existing filters to dual media biological filters
- Replace recycled stream treatment process including polymer system
- Construct residuals dewatering facility, including mechanical belt press, equalization tanks, feed pump station, a new building, cake pumps, and load leveling system
- Replace or new construction of chemical storage tanks, chemical transfer pumps, and chemical piping for all plant chemicals
- Construct structural improvements for existing operations building
- Construct new two-story operations building
- Replace existing filter gallery building
- Construct ancillary improvements, including replacement/rehab of existing pipelines, storm drain improvements, flood protection, replacement of HVAC units, and various electrical and instrumentation improvements

The progressive design build delivery model follows a competitive request for proposals process and provides for an integrated design and construction team to be intimately involved from the early design stages of the project, anticipating and mitigating the complex issues related to reconstructing the treatment plant while it remains in operation. The FIP construction will begin when the design and environmental review are complete, a guaranteed maximum construction cost proposal is accepted, and the Concrete Tanks project is done. The project schedule is shown below.

- Request for Qualifications: Summer 2020
- Request for Proposals from short-listed firms: Winter 2020
- Design: 2021 – 2023
- Construction: 2024 – 2027

The project team includes:

- City staff, providing overall project management, contract management, and design review
- HDR, supporting city staff, providing project management
- A construction management firm, performing construction management and specialty inspection services
- The design-build firm, performing the design and then construction of the infrastructure improvements
- Dudek, the environmental and permitting consultant
- Resource agencies, permitting the project elements

Additional stakeholders include City water customers and neighbors to the project site.

ENVIRONMENTAL

An Environmental Impact Report (EIR) will be prepared for this project. Dudek is developing the CEQA permitting and CEQA public outreach strategy in coordination with their subconsultant Kearns and West. Work on the EIR will begin later this summer with the public scoping period expected near the end of the year. The draft EIR is scheduled to be complete by summer of 2021, followed by the public comment period and then final EIR certification in late 2021.

The following approvals are anticipated to be required for the proposed project: California Air Resources Board if portable construction equipment with engines exceeding 50 hp is used, coverage under the Central Coast Regional Water Quality Control Board's Construction Storm Water General Permit, and an encroachment permit from the County of Santa Cruz Public Works Department. These applications will be obtained a few months prior to project construction.

PUBLIC OUTREACH

In addition to the formal public engagement opportunities during the EIR process, this project will provide community engagement via regular project updates and emailed newsletters, a dedicated and up-to-date project website, articles in the biannual SCMU Review newsletter that is mailed to all customers, social media posts for project highlights, and public open houses and periodic tours of the facility.

An Open House was held at the GHWTP on February 28, 2019 to introduce the treatment plant neighbors to department staff, the treatment plant facility, and the projects being considered at the plant over the next 8-10 years. Approximately 15 neighbors were in attendance.

FINANCIAL

City Council authorized the Water Department to apply for a low-interest loan program offered through the United States Environmental Protection Agency's (EPA) Water Infrastructure and Innovation Act (WIFIA) on June 26, 2018. The application in the fall of 2021 will bundle the GHWTP FIP project, the GHWTP Concrete Tanks project, and the Newell Creek Dam Inlet/Outlet project together for an attractive loan package that is more likely to receive funding.

FISCAL IMPACT: There is no fiscal impact associated with this item and the requested action. The cost of the project is being incorporated into the Department's financial planning efforts.

PROPOSED MOTION: Support staff's recommendation to City Council to use the best value project delivery method, Progressive Design Build, for the Graham Hill Water Treatment Plant Facilities Improvement Project.

ATTACHMENT(S):

1. April 28, 2020 City Council Staff Report, Best value project delivery method for construction projects
2. June 26, 2018 City Council Staff Report, WIFIA application authorization
<http://scsire.cityofsantacruz.com/sirepub/cache/2/yveuurwt4ottwxod5ubas4qv/473745205282020101356129.PDF>
3. December 3, 2018 Water Commission Staff Report, Water Treatment Workshop
http://scsire.cityofsantacruz.com/sirepub_watercom/cache/2/yveuurwt4ottwxod5ubas4qv/477811805282020100753569.PDF
4. December 3, 2018 Water Commission Presentation, Water Treatment Workshop
http://scsire.cityofsantacruz.com/sirepub_watercom/cache/2/yveuurwt4ottwxod5ubas4qv/477812005282020100934173.PDF



CITY COUNCIL AGENDA REPORT

DATE: 4/19/2020

AGENDA OF: 4/28/2020

DEPARTMENT: Water

SUBJECT: Introduce for Publication an Ordinance Amending Sections 3.08.030 and 3.08.100 of, and Adding Section 3.08.091 to, the Santa Cruz Municipal Code to Establish Regulations for the Use, Award and Evaluation of Best Value Project Delivery Methods for Construction Projects (WT)

RECOMMENDATION: Introduce for publication an ordinance amending Sections 3.08.030 and 3.08.100 of, and adding Section 3.08.091 to, the Santa Cruz Municipal Code to establish regulations for the use, award and evaluation of best value project delivery methods for construction projects.

BACKGROUND: Under California Public Contract Code § 22160, et seq., cities and other public entities are authorized to use novel approaches to public works contracting, most commonly recognized as “Design Build” or “Best Value” project delivery methods. Best Value is the broad descriptor for a suite of collaborative project delivery models that include but are not limited to Design-build, Progressive Design build, and Construction Manager At Risk.

Best Value project delivery is different from the conventional design-bid-build method in that the engineering, design and construction services can be procured from a single entity (comprised of disciplines such as engineers, architects and construction firms) through a competitive request for proposal process, as opposed to being procured through individual entities in a sequential design-bid-build process. Some of the reported advantages of Best Value project delivery include:

- Reduced project costs.
- Expedited schedules for project completion.
- Innovative solutions to design and construction challenges.
- Improved quality and owner satisfaction with the projects.

Until recently Section 1415 of the City Charter precluded the use of Best Value procurements, thereby requiring the use of traditional design-bid-build approach. A change to the City Charter was proposed to permit Best Value contracting as an alternative to design-bid-build to be used as appropriate and the proposed charter amendment, Measure W, was approved by local voters in the March 3, 2020 election. On April 7, 2020 Council, through Resolution No. NS-29,644, confirmed and approved the election results, and authorized the Mayor to execute the amendments to Section 1415 of the City Charter.

With the option to consider delivering projects using Best Value contracting methods, the Water Department will be in a better position to accomplish capital improvement projects (that include major upgrades, repairs and replacement of the City’s water storage, treatment and transmission infrastructure) as efficiently as possible.

DISCUSSION: The amended Section 1415 of the City Charter states: “... The City Council shall establish, by ordinance, regulations for the award, use and evaluation of such contracts.” The attached ordinance satisfies this through the addition of Section 3.08.091- Best-Value Project Delivery Methods For Construction Projects, to Title 3: Revenue and Finance, Chapter 3.08: Purchasing of the Santa Cruz Municipal Code. Key points include:

- Approval to use: City Council will authorize the use of the best value contracting method prior to or concurrent with the award of contract.
- Procurement and Award Process: Best-Value contracts will be evaluated and awarded following existing competitive proposal processes defined in the municipal code.
- Eligibility: Defines which entities are eligible or ineligible to propose on a best value contract, depending on that entities prior project involvement.

In addition to the proposed municipal code updates, an Administrative Procedures Order (APO) is under development to further guide staff in using this new contracting method. The APO will address Department head oversight in the selection of the recommended best-value delivery method, criteria to use for prequalifying contractors, criteria to use in the evaluation of proposals, and subcontractor listing requirements.

FISCAL IMPACT: The use of Best Value project delivery methods is anticipated to result in cost savings.

Submitted by:
Rosemary Menard
Water Director

Submitted by:
Mark Dettle
Public Works Director

Approved by:
Martín Bernal
City Manager

ATTACHMENTS:
Draft Ordinance – Redline
Draft Ordinance – Clean

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