

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



WATER COMMISSION

Regular Meeting

November 2, 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 the following sources:

Online: <https://ecm.cityofsantacruz.com/OnBaseAgendaOnline/Meetings/Search?dropid=4&mtids=124>

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

PUBLIC COMMENT:

If you wish to comment during on items 1-4 during the meeting, please see information below:

- Call any of the numbers below. If one number 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: **990 2467 4672**
- 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 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

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- 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 or listen to the meeting and don’t wish to comment on an item, you can do so at any time via the Facebook link or over the phone via Zoom.

*Denotes written materials included in packet.

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 4 - 18) 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 4 - 6)

Accept the City Council actions affecting the Water Department.

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2. Water Commission Minutes from October 5, 2020 (Pages 7 - 12)

Approve the October 5, 2020 Water Commission Minutes.

3. FY20 4th Quarterly Financial Report (Pages 13 -18)

Accept the FY20 4th Quarterly Financial Report.

Items Removed from the Consent Agenda

General Business (Pages 19 - 24) 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.

4. Water Cost of Service Analysis (Pages 19 - 24)

That the Water Commission accept the information on the results of and preliminary recommendation on the Water Cost of Service Analysis and provide feedback to staff on any topics of interest or concern that need to be addressed prior to bringing the item back on December 7, 2020 for Water Commission action on finalizing recommendations on Cost of Service Analysis for use as a basis for developing future water rates.

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

5. Santa Cruz Mid-County Groundwater Agency

6. Santa Margarita Groundwater Agency

7. Ad Hoc Financial Planning Committee

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

Information Items

Adjournment

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WATER COMMISSION
INFORMATION REPORT

DATE: 10/29/2020

AGENDA OF: November 2, 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:

October 8, 2020

Fiscal Year 2021 Revised Budget Adoption (FN)

Motion **carried** to adopt Resolution No. NS-29,719 adopting the revised Fiscal Year (FY) 2021 Budget, previously adopted on July 2, 2020, effective October 8, 2020 with the amendments included in Attachment 3 - FY 2021 General Fund Reductions, and Attachment 4 - FY 2021 Administrative Corrections, and any amendments determined by the Council on October 8, 2020, with the following changes:

City Manager's Office

- Add \$20,000 for the City-County Task Force on UCSC Expansion Advocate position.
- Include Community Programs CORE funding of \$87,975, with direction to utilize CARES Act funding to backfill the expenses to the greatest extent possible and within program parameters, when the funds are available.

Parks and Recreation

- Retain \$10,000 of the proposed cut of \$26,946 for the Surf Museum in order to maintain limited hours as allowed under COVID-19, with the following direction for staff:
 - Work with community non-profit partners and additional volunteers on fundraising for additional funding and volunteer staffing to operate the museum to the greatest extent possible through the end of June 2021.
 - Explore retail opportunities.

Motion **carried** to:

- Adopt Resolution No. NS-29,720 amending the Classification and Compensation Plans for FY 2021 by implementing the Budget/Position changes in several departments, with the following changes:
 - Change the addition of six Community Service Officer (CSO) positions to five.
 - Retain the Victim Advocate position.

Direct staff ensure that part of the duties of a CSO would be to patrol the parks and open spaces, and moving forward as funding becomes available, to explore the creation of Park Rangers whose roles would be in conservation and ecological interpretation

October 13, 2020

Legal Services from Hunt Ortmann Palffy Nieves Darling & Mah, Inc. to Develop Progressive Design Build Bidding Documents and Agreement for the Graham Hill Water Treatment Plant Facilities Improvement Project (WT)

Motion **carried** authorizing the Water Department to issue a purchase order to Hunt Ortmann Palffy Nieves Darling & Mah, Inc. for development of Progressive Design Build bidding documents, a related agreement, and legal services for the Graham Hill Water Treatment Plant Facilities Improvement Project in an amount exceeding the limit of \$100,000 requiring Council authorization.

October 27, 2020

Water Supply Advisory Committee Aquifer Storage and Recovery and Recycled Water Alternatives: Contract Amendment No. 3 with Pueblo Water Resources for Groundwater Modeling (WT)

Motion **carried** authorizing the City Manager to execute Contract Amendment No. 3 with Pueblo Water Resources, Inc. (Ventura, CA) in the amount of \$193,390 for groundwater modeling and data interpretation for the Aquifer Storage and Recovery and Recycled Water Alternatives as per the recommendations of the Water Supply Advisory Committee, and to authorize the City Manager to execute an agreement in a form approved by the City Attorney.

California Public Utilities Commission Self-Generation Incentive Program (SGIP) – Application for and Receipt of Commercial Scale Energy Storage System at the Coast Pump Station (WT)

Motion **carried** ratifying the application and other supporting documents initiating the application process signed by staff on September 16, 2020 with Tesla, Inc., and authorizing the City Manager to enter into ongoing agreements with Tesla, Inc. on behalf of the City of Santa Cruz for their purchase, installation and 10-year operation and maintenance of an energy storage system at the Coast Pump Station.

Water Department FY 2021 Budget Adjustment Adding Resources for CZU Lightning Complex Fire-Related Work – Budget Adjustment (WT)

Resolution was **adopted** appropriating \$260,000 from the Water Emergency Fund (Fund 717) and amending the Water Department’s FY 2021 operating budget to fund CZU Lightning Complex Fire-related work.

Resolution Transferring Funds within the Water Enterprise Funds to Meet FY 2020 Financial Targets – Budget Adjustment (WT)

Resolution was **adopted** transferring \$3,800,000 to the Water Operations Fund (Fund 711) and \$30,000 to the Water 90–Day Fund (Fund 716) from the Water Rate Stabilization Fund (Fund 713).

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

ATTACHMENTS: None.

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Water Department

Water Commission
7:00 p.m. – October 5, 2020
Council Chambers/Zoom Teleconference
809 Center Street, Santa Cruz

Summary of a Water Commission Meeting

Call to Order: 7:03 PM

Roll Call

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

Commissioner Mekis arrived at 7:08 PM (via Zoom)

Absent: None

Staff: R. Menard, Water Director (via Zoom); C. Coburn, Deputy Director/Operations Manager (via Zoom); H. Luckenbach, Deputy Director/Engineering Manager (via Zoom); C. Berry, Watershed Compliance Manager (via Zoom); S. Perez, Principal Planner (via Zoom); K. Fitzgerald, Administrative Assistant III (via Zoom)

Others: 3 members of the public (via Zoom)

Statements of Disqualification: None.

Oral Communications: One member of the public spoke (Becky Steinbruner).

Announcements: None.

Consent Agenda

1. City Council Items Affecting the Water Department
2. Water Commission Minutes From September 14, 2020

Commissioner Wilshusen requested that her comment on page 9 of the minutes be corrected to state that “capital asset allocation should be applied to the entire service area without the distinction of inside and outside customers.”

Commissioner Mekis requested that a clarification be added to the minutes on page 11, paragraph 4 to state that during a declared shortage, there will be a prohibition of ASR diversions or contributions, recovery may occur during a drought.

Items 3 and 4 of the Consent Agenda were pulled by Chair Engfer and discussed after General Business Item 7.

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

VOICE VOTE: MOTION CARRIED

AYES: All

NOES: None

ABSTAIN: None

General Business

5. Proclamation Recognizing the Exemplary Performance of Santa Cruz Water Department Employees During the Recent CZU August Lightning Complex Fire

Commissioner Ryan introduced a proclamation recognizing employees of the Water Department for their response and continued work on restoration efforts related to the CZU August Lightning Complex Fire.

Commissioner Mekis moved the recommendation on Item 5. Commissioner Wilshusen seconded.

VOICE VOTE: MOTION CARRIED

AYES: All

NOES: None

ABSTAIN: None

Ms. Menard commented that this proclamation is tentatively scheduled for the October 13, 2020 City Council agenda.

6. Santa Cruz Water System Climate Change Vulnerability Analysis and Decision Making Support for Evaluation and Selection of Water Supply Projects

Ms. Luckenbach introduced Dr. Bob Raucher and Karen Raucher for the presentation and discussion of Decision Making Support for Evaluation and Selection of Water Supply Projects.

Ms. Luckenbach commented that while the processes outlined in this presentation are aligned with the WSAC recommendations, some new criteria for evaluating water supply alternatives are included for discussion and based on the results of work that has been completed over the last five years.

Dr. Casey Brown was introduced to present the Santa Cruz Water System Climate Change Vulnerability Analysis.

How are boundaries in terms of plausibility of various weather scenarios being evaluated?

- Dr. Brown responded that the model has the ability to run many scenarios in a reasonable amount of time, capturing a wide spectrum of varied temperature and precipitation patterns. The bottom-up analysis will consider the probability of future climate/weather patterns with the ability of our system to reliably meet demands.

Is there a process for conveying this information in terms that can be more easily communicated to the public?

- Karen Raucher responded that this information will be reframed for presentation to the public and with a goal of engaging the public at every step of the process. The challenge will be keeping people engaged throughout the process and not just at the end.

Is there a connection between increasing temperatures and increasing precipitation?

- Dr. Brown responded that these variables are often too conflated and assumed to change in tandem with one another when in fact how they will change with climate change is unknown, and the reason so many model scenarios are performed.

Does temperature rise lead to an increase in wildfire events and how do we determine whether our current supply is sufficient?

Dr. Brown and Dr. Raucher responded that wildfire is one of the system vulnerabilities that will be evaluated.

Commissioners commented that staff should include a graphic or note on future updates of this item that emphasizes the significance of the tool Dr. Brown is developing and how it will be used to inform future decisions on key issues.

Will Water Department staff be able to utilize the modeling tool that Dr. Brown is developing once his work is complete?

- Yes.

One public comment was received.

No action was taken on this item.

7. Updated Project Description for the Water Rights Changes Environmental Impact Report Draft (EIR)

Ms. Menard introduced Ms. Sarah Perez and Mr. Chris Berry for the presentation of the Updated Project Description for the Water Rights Changes Environmental Impact Report Draft.

What is the process for changing 2006 petitions with the State Water Resources Control Board (SWRCB)?

- The petitions submitted in 2006 were not acted upon by the SWRCB and we were asked by the National Fishery Service to withdraw these petitions to make it easier for them to retract their protests. The new petitions have been developed based on the extensive modeling work that has been done for the CEQA process and addressing conjunctive use, as well as potential impacts due to climate change and environmental water demands.

Will these new petitions affect the ability to recover water that has been transferred to storage through, for example, in-lieu water exchanges or ASR in the future?

- No.

How much accounting for water will be required by the SWRCB?

- We anticipate that while there will be a little more work involved, but the overall process should not be too different from what is already reported with the statements of use we file with the SWRCB.

Have there been any preliminary indications of interest by other groups or individuals in the proposed water rights changes?

- During the public scoping periods, we received twelve comments from other organizations and members of the public. We have also met with the County and state agencies as well as neighboring water agencies. We are working on an outreach plan to some key stakeholders and will be reaching out to some of them prior to the release of the draft EIR.

One member of the public commented.

In response to the commenter's statement that she was pushing for the Soquel Creek Water District to file a temporary urgency request to the State Water Resources Control Board for access to surface water rights on the San Lorenzo river, Ms. Menard commented that the City would likely file a protest if the District were to file for an urgent water rights expansion on the basis that if any more water were to be taken from the river it would be damaging to migrating fish.

Items pulled from the Consent Agenda

3. Quarterly Update on the Water Supply Augmentation Strategy (WSAS)

Will the City be able to transfer water to Soquel Creek Water District (District) this winter?

- The ability to transfer water will depend on the conditions of the San Lorenzo River during the wet season and also on the status of capital project construction work that may limit our ability to provide supply. Also, the agreement term ends this December and we plan to discuss the possibility of renegotiating a new agreement with the District in the coming months.

What treatments are available for arsenic and will this be a fatal flaw of the project?

- There are treatment solutions for arsenic removal. However, the goal of the pilot testing, groundwater modeling, geochemical analysis, etc., is to avoid any negative impacts on the basin. With respect to arsenic, specifically, we can adjust the water quality of the injection water and/or better understand long-term trends of arsenic concentrations. Cycle 3 of the Beltz 8 pilot will help inform this issue. We will need to demonstrate to the Regional Water Quality Control Board that our activities have no impacts for an ASR project to be permitted.

Does the De Laveaga irrigation include both the park and golf course, as referenced on page 20?

- Yes.

One member of the public commented.

4. Fire Response Action Plan Summary

In regards to the timeline in Action Plan Summary, when will there be an opportunity to reflect on the long-term implications of the fire on the watershed and how we can adapt to the vulnerabilities to the water system?

- This plan presented in the packet focuses on near-term issues such as those likely to be relevant to the upcoming wet season. For long-term issues, we have a watershed fire ecology assessment study underway that will give us information about vulnerabilities in the long-term. With respect to our use of HDPE pipe, that issue will be assessed in the future to determine if it is feasible to replace it with another kind of pipe material and whether it should be present in the water system at all, whether above or below the ground.

Will the fire response work have budgetary impacts or cause delays on the Facilities Improvement Project (FIP) at the Graham Hill Water Treatment Plant?

- We will be spending some funds to implement the near-term fire response actions, but we don't expect them to have any impact on projects like the FIP. If treatment changes such as enhanced coagulation are implemented, it will occur using temporary type facilities, which would not/could not be incorporated into any future treatment system. That said, a major objective of the FIP is to upgrade our ability to treat more impaired water which, had the FIP work already been completed, would have served us well in this situation.

How far does water pumped from the Beltz wells reach in the system?

- This depends on when the system is operational; During high-demand summer months, this water will serve a narrower range of customers, whereas in the winter when demand is lower, there is potential for it to spread further in the system. This can also depend on whether the intertie is operational. We also have a cooperative agreement to maintain groundwater in the Mid-County basin. (Note: a map was distributed to Water Commissioners after the October 5th Water Commission meeting showing the Beltz distribution area.)

How will the presence of hydrophobic soils be mitigated?

- The County is leading the implementation of hazard mitigation in the burned areas. The focus now is primarily on hazardous materials removal, such as burned-out vehicles, in the watershed before the first rain.

One member of the public commented.

Commissioner Ryan moved the Consent Agenda as amended. 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 (MGA)

The MGA had a brief meeting on September 17th for the election of officers and Tom LaHue was re-elected as Chair and David Baskin was elected as Vice-Chair. The Request for Qualifications for Planning and Technical Services for the Groundwater Sustainability Plan Implementation and Reporting has gone out and the selection will begin soon. Additional work is needed on the shallow monitoring wells for surface water/groundwater interactions. The next meeting will be on November 19th.

9. Santa Margarita Groundwater Agency (SMGWA)

The details of the technical aspects continue to be discussed. There continues to be a difference of opinion with private pumpers on the effects of their pumping on the basin.

10. Ad Hoc Financial Planning Committee

The group has not met since the last Water Commission meeting and is planning to meet in mid-October.

Director's Oral Report: Water and other enterprise funds have not been asked to provide additional budget cut packages. There is a Council meeting this Thursday that will review the recommendations for cuts throughout the city. The COVID-19 pandemic has severely affected the city financially as sales taxes, transient occupancy taxes, admission fees, etc continue to track low.

Adjournment Meeting adjourned at 10:20 PM.

Respectfully submitted,

Katy Fitzgerald, Staff



WATER COMMISSION
INFORMATION REPORT

DATE: 10/29/2020

AGENDA OF: November 2, 2020
TO: Water Commission
FROM: Nicole Dennis, Principal Management Analyst
Malissa Kaping, Management Analyst
SUBJECT: FY 2020 4th Quarter Unaudited Financial Report

RECOMMENDATION: That the Water Commission accept the FY 2020 4th Quarter Unaudited Financial Report.

BACKGROUND: On June 6, 2016, the Water Commission approved the Water Department's Long Range Financial Plan (LRFP) which created a framework to ensure financial stability and maintain the credit rating needed to debt finance major capital investments planned for the utility. The 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 Report 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 subcommittee of the Water Commission and Water Department staff worked together to update the quarterly financial report which debuted a year 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 successes, identify problem areas and provide information to demonstrate that appropriate responses are being implemented. With each successive financial report, Department staff has updated the report to reflect Commissioners' comments and further refine the information presented.

DISCUSSION: The attached financial report presents the Department's unaudited fiscal outlook through the fourth quarter of FY 2020 and is a snapshot of the transactions posted by 6-1-2020. At this writing, the City's Finance Department has not "closed" FY 2020 and it is possible that edits are being made to the City's financials in preparation for the Comprehensive Annual Financial Report (CAFR). Page 1 of the attached Financial Report is focused on the Operating

budget and Page 2 reflects the Capital budget. Noteworthy items are discussed on the following pages.

Operating Revenues

Due to the lag in time between the production of the Proposed Budget (March) and the beginning of the fiscal year (July) a number of changes were made to revenues estimates to better reflect the latest information on revenues. The changes made to revenues included:

- Water sales were adjusted downward by \$3.061 million to more accurately reflect actual water sales rather than anticipated as part of the Cost of Service Analysis (COSA) and LRFP developed and approved in 2016.
- A separate revenue category for grant funds has been created to highlight the work being done by the Department to secure more grant funding and reflective of the Water Commission interest in these sources of funding. The next two items highlight these efforts:
 - Recognition of a \$371,595 Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant submitted to FEMA for the Brackney Landslide Pipeline Risk Reduction Project to address the 2017 winter storm damage. We have since learned the entire \$5 million project is eligible for this FEMA grant.
 - A \$4,000 grant from the City's Carbon Fund for a water bottle filling station at the Loch Lomond Recreation area.
 - Grants funds received include FEMA and State of California Office of Emergency Services for repairs to the road leading to the Carbonera tank access road.
- Anticipated Drinking Water State Revolving Fund (DWSRF) loan of \$12.2 million was budgeted for the Newell Creek Inlet/Outlet project. Unfortunately, the Financing Agreement was not finalized until September 2020 so it has been excluded from the Quarterly financial reports for FY 2020 including this 4th Quarter Financial Report. Staff is actively working on the first claim for planning and design (soft) costs estimated at \$6 million for submission this month. Construction claims will follow every quarter through completion of the project.
- An estimate of the proceeds from the November "Green" Water Bond issue was also added to the revenue budget. Payment to close the Bank of American Line of Credit (\$10.5 million) and issuance costs (\$194,000) were made. Unfortunately, staff cannot find evidence of additional draws of totaling \$8.587 million requested in June 2020 have been posted. Staff hopes to this issue resolved by the time of the Water Commission meeting however, for the purposes of analyses it has been excluded from the Quarterly financial reports for FY 2020 including this 4th Quarter Financial Report.

When compared to the total water rate revenue projected in the 2016 COSA and LRFP of \$45.1 million, overall revenues and consumption are down approximately 10%. This decrease is a combination of increased conservation and the impact of the COVID-19 pandemic. The reduction in revenues was softened by the 6% approved rate increase instituted on 7-1-2019. The Water Commission and City Council approved the deferral of all City utility rate increases due to go into effect on 7-1-2020 and staff continue to track water sales and revenues recognizing further adjustments will be needed in the FY 2021 revenue budget.

On the positive side in FY 2021, the Water Department expects to draw the remaining \$7 million in water revenue bonds, begin receiving construction reimbursements for the DWSRF for the Newell Creek Inlet/Outlet project in addition to the \$6 million in soft costs. Staff also anticipates receiving DWSRF reimbursement for soft costs and potentially construction costs for the Graham Hill Water Treatment Plant Concrete Tanks project.

The Ad Hoc Subcommittee of the Water Commission has been charged with reviewing revenue requirements as part of the current COSA. The group will be running through several scenarios that include reduced water rate revenues (reflected of increased conservation combined with the impacts from the COVID-19 pandemic) as well as different Capital Investment Program (CIP) scenarios.

On 10-27-2020, the City Council approved the transfer of \$3.8 million to the Water Operations Fund (Fund 711) and \$30,000 to the Water 90-Day Fund (Fund 716) from the Water Rate Stabilization Fund (Fund 713) based upon unaudited FY 2020 amounts and to meet the Department's 180-days cash financial target. This action will reduce the balance in the Rate Stabilization Fund below the \$10 million target therefore, the \$1.00/ccf Rate Stabilization charge will remain in effect on customers' utility bills. If this level of transfer is not needed once FY 2020 is closed, the transfer will be adjusted accordingly.

Operating Expenses

Operating expenses are projected to be \$5.4 million or 16% below the FY 2020 Adjusted Budget. The Department experienced success with staff charging \$762k in salaries and benefits to CIP projects they worked on. This left \$438k that contributed to the lower than budgeted actuals. The impact of the Governor's shelter-in-place significantly disrupted planned work in the last quarter of FY 2020 with many staff forced to stay home while safety protocols were developed and implemented and then operated in shifts to avoid possible cross-exposure to essential workers such as treatment and distribution operators, customer service and lab staff.

CIP Budget

As mentioned previously, staff continues to make improvements to the CIP report format with the goal of providing the Water Commission and other readers an accurate and condensed picture of project progress while taking advantage of readily available source information and reducing the time staff works on producing these reports. The noteworthy changes include:

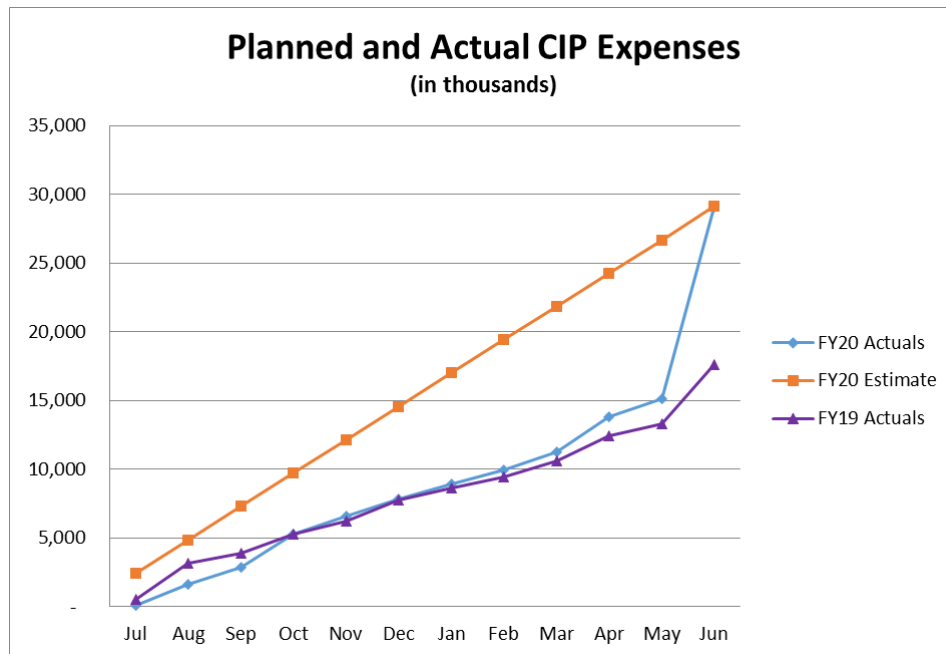
- In the previous two reports, the total estimated project cost was limited to a specific time period, FY2019 through FY 2038. FY 2019 was an arbitrary line drawn for the purpose of performing forward-looking cost analyses. This report shows the Budget at Completion (BAC) which is all prior year actuals plus projected costs through the end of the project. This is why the grand total of estimated project totals increase from \$592,600,000 to \$600,200,000 between the 3rd quarter FY 2020 report and this 4th quarter FY 2020 report.
- The current fiscal year estimated expenditures was replaced with a remaining budget column so the remaining projected spend can easily be seen. The chart below contains the current fiscal year estimated expenditures in a visual format and will continue to be included in future staff reports.

- Current year actuals will no longer include current PO encumbrances to better reflect our actual spending. Prior to implementing the Water Program, CIP projects were budgeted based on contract value and now we are budgeting based on projected spending. PO encumbrances no longer reflect contract values and are not as significant to use for reporting costs.

Changes planned for the 1st Quarter Financial Report for FY 2021 include:

- The next report will provide the BAC for all projects in escalated dollars; in the current report, only Newell Creek Dam Inlet-Outlet project is reported in escalated dollars.
- We will also take the opportunity to work with our new finance manager, David Baum, to determine if other improvements should be made.

In the staff report for the FY20 3rd Quarter Financial Report, we included a chart comparing planned, actual, and projected expenses for FY 2020. The total amount projected for FY 2020 expenses was \$29,116,000 and the actual expenses came in at \$29,675,000. Below is the updated chart.



FISCAL IMPACT: None. Based on the unaudited numbers presented and transfers from the Rate Stabilization Fund (Fund 713) of \$ 3,830,000 million, the Water Department has met the financial metrics set forth in the Pro Forma for FY 2020.

PROPOSED MOTION: Motion to accept the FY 2020 4th Quarter Financial Report.

ATTACHMENT: FY 2020 4th Quarter Financial Report

SANTA CRUZ WATER DEPARTMENT FINANCIAL REPORT

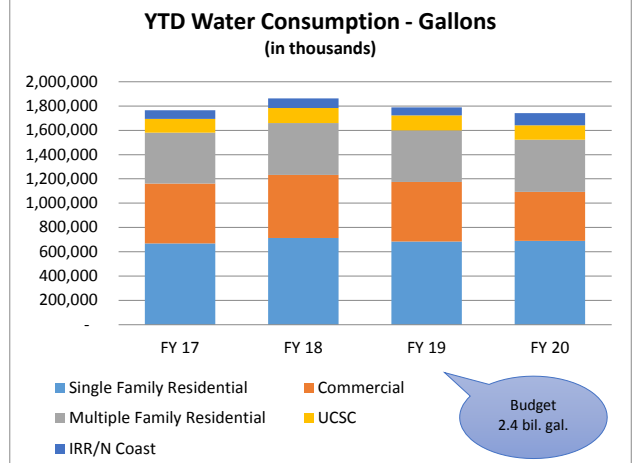
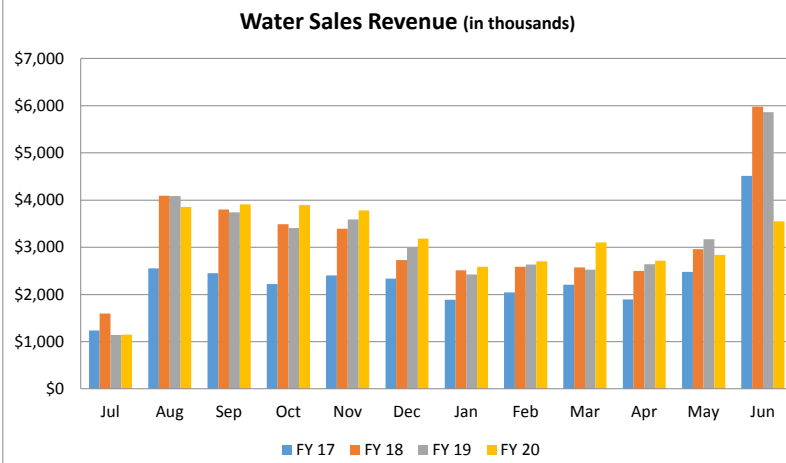
Fiscal Year 2019/20 through June 30, 2020
 Unaudited Year End Information



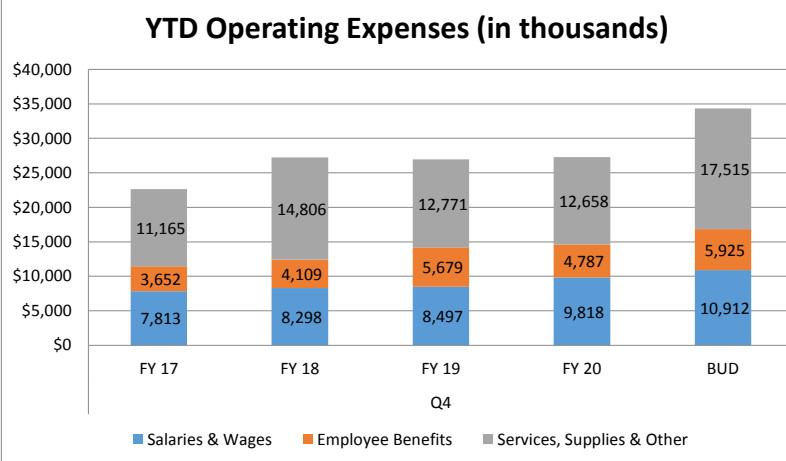
Financial Summary

	FY 2020 Adjusted Budget	YTD Budget	Actual	Actual vs. YTD Budget	
				Variance \$ +/-	Variance % +/-
Operating Revenues					
Water Sales	40,484,000	40,484,000	39,878,296	(605,704)	(1%)
Other Charges for Services	1,273,268	1,273,268	1,281,525	8,257	1%
Other Revenues	385,353	454,733	317,749	(136,984)	(30%)
Grants	675,595	675,595	309,800	(365,795)	(54%)
Investment Earnings	225,240	225,240	390,922	165,682	74%
Total Operating Revenues	43,043,456	43,112,836	42,178,292	(934,544)	(2%)
Operating Expenses					
Salaries & Wages	10,961,454	10,961,454	9,818,205	(1,143,249)	(10%)
Employee Benefits	5,924,882	5,924,882	4,787,263	(1,137,619)	(19%)
Services, Supplies & Other	15,527,309	15,527,309	12,657,689	(2,869,620)	(18%)
Capital Outlay	739,296	739,296	523,383	(215,913)	(29%)
Debt Service - Principal & Interest	2,920,769	2,920,769	2,920,769	-	0%
Total Operating Expenses	33,152,941	33,152,941	27,786,540	(5,366,401)	(16%)
Net Operating Revenue (Loss)	9,890,515	9,959,895	14,391,752	4,431,857	44%
Debt Service Coverage (Target >= 1.50x)	3.39x	3.41x	4.93x		

Revenues



Expenses



Cash

Fund Balances	YTD Balance	Year End
711 - Enterprise Operations	6,892,486	6,892,486
713 - Rate Stabilization	8,364,778	10,000,000
715 - System Development Charges	4,156,653	N/A
716 - 90 Day Operating Reserve	6,892,486	6,892,486
717 - Emergency Reserve	3,197,348	3,100,000
718 - Mount Herman June Beetle Endowment	144,992	144,000
719 - Equipment Replacement	715,714	700,000
Days' Cash (Includes only Funds 711 & 716)	181.1	181.1
Days' Cash Target	180.0	180.0

CIP Summary: Fiscal Year 2020 Year End

Project Titles	Total Project Budget at Completion (non-escalated)	Prior Year Actuals	Current FY Actuals (FY20)	Remaining Budget	Current Status
WATER SUPPLY RESILIENCY & CLIMATE ADAPTATION PROJECTS					
<i>Water Supply Augmentation Strategy</i>					
Beltz Wellfield Aquifer Storage and Recovery					
ASR Planning	2,036,877	1,475,622	1,147,509	(586,254)	Planning
ASR Mid County Existing Infrastructure	2,425,000	-	-	2,425,000	Planning
ASR Mid County New Wells	16,580,000	-	-	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	-	-	15,715,000	Not Initiated
ASR New Pipelines	28,580,000	-	-	28,580,000	Not Initiated
In Lieu Transfers and Exchanges	-	-	-	-	Planning
Studies, Recycled Water, Climate Change, Aquifer Storage and Recovery					
Water Supply Augmentation	848,978	280,402	103,213	465,363	Planning
Recycled Water Feasibility Study	888,533	551,247	85,221	252,065	Planning
River Bank Filtration Study	5,596,244	289,657	416,026	4,890,561	Planning
<i>Subtotal Water Supply Augmentation Strategy</i>	72,670,632	2,596,928	1,751,970	68,321,734	
<i>Subtotal Water Supply Resiliency and Climate Adaptation Projects</i>	72,670,632	2,596,928	1,751,970	68,321,734	
INFRASTRUCTURE RESILIENCY AND CLIMATE ADAPTATION					
<i>Raw Water Storage Projects</i>					
NCD I/O Replacement Project ⁽¹⁾	108,424,414	7,090,944	11,240,962	90,092,507	Construction
Aerators at Loch Lomond	551,377	8,588	84,748	458,040	Design
<i>Subtotal Raw Water Storage Projects</i>	108,975,790	7,099,532	11,325,710	90,550,548	
<i>Raw Water Diversion and Groundwater System Projects</i>					
Laguna Creek Diversion Retrofit	3,129,353	7,353	571,976	2,550,024	Design
North Coast System Majors Diversion Rehab	4,130,853	7,353	51,616	4,071,884	On-hold
Tait Diversion Rehab/Replacement	5,212,500	-	109,051	5,103,449	PD/Feasibility
Coast Pump Station Rehab/Replacement	7,304,000	-	-	7,304,000	Planning
Beltz 10 and 11 Rehab & Development	365,604	80,604	4,777	280,223	Planning
Felton Diversion PS Assessment	3,444,000	-	135,019	3,308,981	Planning
<i>Subtotal Raw Water Diversion and Groundwater System Projects</i>	23,586,311	95,311	872,438	22,618,562	
<i>Raw Water Transmission</i>					
Coast Pump Station 20-inch RW Pipeline Replacement	6,631,584	64,721	2,055,427	4,511,436	Construction
Newell Creek Pipeline Rehab/Replacement	1,031,500	9,500	206,610	815,390	Environmental
Newell Creek Pipeline Felton/GHWTP	28,310,500	-	-	28,310,500	Environmental
Newell Creek Pipeline Felton/Loch Lomond	24,056,500	-	-	24,056,500	Not Initiated
Brackney Landslide Area Pipeline Risk Reduction	5,076,000	-	66,511	5,009,489	Planning
North Coast Pipeline Repair/Replacement - Planning	838,000	-	-	838,000	Planning
North Coast Pipeline Repair/Replacement - Ph 4	14,578,000	-	-	14,578,000	Not Initiated
North Coast Pipeline Repair/Replacement - Ph 5	14,578,000	-	-	14,578,000	Not Initiated
<i>Subtotal Raw Water Transmission</i>	95,100,084	74,221	2,328,548	92,697,315	
<i>Surface Water Treatment</i>					
GHWTP Tube Settler Replacement	1,660,968	161,700	1,089,211	410,057	Post Construction
GHWTP Flocculator Rehab/Replacement	1,847,000	-	157,914	1,689,086	Construction
GHWTP Concrete Tanks Replacement	45,588,295	1,588,295	2,410,696	41,589,304	Design
GHWTP Facilities Improvement Project	96,865,077	840,077	1,912,785	94,112,215	Environmental
GHWTP Filter Rehab and Upgrades	5,841,876	5,819,026	15,375	7,475	Completed ⁽⁴⁾
<i>Subtotal Surface Water Treatment</i>	152,460,285	8,409,099	5,612,428	138,438,758	
<i>Distribution System Storage, Water Main and Pressure Regulation, and Metering Projects</i>					
University Tank No. 4 Rehab/Replacement	5,691,000	36,881	77,847	5,576,272	Planning
University Tank No. 5 Rehab/Replacement	3,958,468	2,387,779	1,673,618	(102,929)	Post Construction
Pressure Regulating Stations	257,338	131,436	40,261	85,641	Ongoing
Meter Replacement Project	11,030,817	164,198	749,530	10,117,089	Ongoing
Engineering and Distribution Main Replacement Projects	16,810,000	1,267,080	4,503,610	11,039,310	Ongoing
Distribution System Water Quality Improvements	75,000	-	17,538	57,462	Planning
Facility & Infrastructure Improvements	6,800,000	-	-	6,800,000	Ongoing
Bay Street Reservoir	25,369,800	25,269,800	9,663	90,337	Completed ⁽⁴⁾
<i>Subtotal Distribution Storage, Wmain Pressure Reg, and Metering</i>	69,992,423	29,257,174	7,072,067	33,663,182	
<i>Subtotal Infrastructure Resiliency and Climate Adaptation</i>	450,114,893	44,935,336	27,211,192	377,968,364	
OTHER RISK MANAGEMENT AND RISK REDUCTION PROJECTS					
<i>Site Safety and Security</i>					
Security Camera & Building Access Upgrades	474,430	176,996	32,995	264,439	Ongoing
Programmable Logic Controllers	239,057	155,574	31,382	52,101	Ongoing
Loch Lomond Facility Improvements	240,347	162,658	71,802	5,887	Completed ⁽⁴⁾
Spoils and Stockpile Handling	300,768	250,009	3,013	47,746	Completed ⁽⁴⁾
Newell Creek Access Rd Bridge	312,310	72,185	215,222	24,903	Post Constr
Carbonera Tank Rd	511,084	123,875	357,622	29,587	Completed ⁽⁴⁾
<i>Subtotal Site Safety and Security</i>	2,077,996	941,296	712,036	424,664	
<i>Staff Augmentation</i>					
Water Program Administration ⁽²⁾	25,000,000	-	-	25,000,000	Ongoing
<i>Subtotal Staff Augmentation</i>	25,000,000	0	0	25,000,000	
<i>Contingency</i>					
Management Reserve ⁽³⁾	50,000,000	-	-	50,000,000	Ongoing
<i>Subtotal Contingency</i>	50,000,000	0	0	50,000,000	
<i>Storage for Emergency Facility and System Repair Tools and Equipment</i>					
Bay Street Reservoir Storage Building	150,000	-	-	150,000	Design
Union/Locust Admin Building Back Up Power Generator	150,000	-	-	150,000	Not Initiated
<i>Subtotal Storage for Emergency and System Repair</i>	150,000	0	0	150,000	
<i>Subtotal Other Risk Management and Risk Reduction Projects</i>	77,377,996	941,296	712,036	75,724,664	
GRAND TOTAL	600,163,521	48,473,560	29,675,198	522,014,763	

⁽¹⁾ NCD I/O Project Budget at Completion total is shown in escalated dollars.

⁽²⁾ \$3,277,456 in staff augmentation costs (shown previously as Water Program Administration actuals) were transferred to specific projects during year-end process.

⁽³⁾ FY20 Management Reserve budget is included in Water Program Administration in FY20.

⁽⁴⁾ Completed projects will not appear in next quarterly report and will not be included in the Grand Total in the next report.



WATER COMMISSION
INFORMATION REPORT

DATE: 10/28/2020

AGENDA OF: November 2, 2020
TO: Water Commission
FROM: Rosemary Menard, Water Director
SUBJECT: Water Cost of Service Analysis

RECOMMENDATION: That the Water Commission accept the information on the results of and preliminary recommendation on the Water Cost of Service Analysis and provide feedback to staff on any topics of interest or concern that need to be addressed prior to bringing the item back on December 7, 2020 for Water Commission action on finalizing recommendations on Cost of Service Analysis for use as a basis for developing future water rates.

BACKGROUND: In early 2020, Water Department staff initiated a comprehensive water rate study which included a cost of service analysis as well as a review of water pricing objectives, and development of revenue requirements for FY 2023 through FY 2027, and a review and development of recommendations on rate design. Since then, Water Commissioners have received various presentations about the progress of the cost of service analysis and engaged in discussion about priority pricing objectives with Water Department staff and staff from Raftelis Consulting, the contractor doing the work.

DISCUSSION: At the Water Commission's November 2, 2020 Raftelis and Water Department staff will present the results of their analytical work on the following topics to the Water Commission:

- Recommendation on Changes to System Development Charges
- Presentation on Overall Cost of Service Analysis
- Analysis of and Water Department staff recommendations on Inside City/Outside City Cost of Service Differential¹
- Recommendations on proposed approach to Elevation Surcharges
- Update on Communication and Outreach Related to Water Rates

FISCAL IMPACT: None at this time.

¹ See attached correspondence related to this topic from Water Commissioner Linda Wilshusen and County Supervisor John Leopold

PROPOSED MOTION: Motion to accept information on the results of and preliminary recommendation on the Water Cost of Service Analysis and provide feedback to staff on any topics of interest or concern that need to be addressed prior to bringing the item back on December 7, 2020 for Water Commission action on finalizing recommendations on Cost of Service Analysis for use as a basis for developing future water rates.

ATTACHMENTS:

Attachment 1 – Water Surcharge Memo 2 101320

VIA EMAIL

October 13, 2020

To: Rosemary Menard, Santa Cruz Water Director

From: Linda Wilshusen, Water Commissioner representing Outside-City Customers, and First District Supervisor John Leopold

RE: Santa Cruz Outside-City Water Surcharge - Response to 8-13-10 Email and 9-14-20 Water Commission Meeting

Dear Ms. Menard –

Thank you for your email dated August 13, 2020 responding to our June 5, 2020 memorandum about the outside-City water surcharge and also for your staff report to the Water Commission in this regard for its September 14, 2020 meeting.

This memo highlights key points in your responses and in the discussion at the Sept. 14 Water Commission meeting, primarily adding comments from the perspective detailed in our June 5, 2020 memorandum.

The comments that follow conclude that:

1. An evolving legal landscape (Propositions 218 and 26) supports discontinuation of the outside-City surcharge.
2. With a new rate structure, future Water Department revenues are not dependent on an outside-City surcharge.
3. Agreeing to eliminate the surcharge early in the rate-setting process supports addressing Santa Cruz area water infrastructure needs into the future.
4. Any cost of distribution assets analysis should be applied to the entire water service area without regard to City boundaries.
5. Documentation of past City water rate-setting practices can be more comprehensive.

Evolving Judicial and Legislative Landscape

Your email references

“...a constantly evolving landscape heavily influenced by both judicial and legislative action...The development and application of law and policy related to Proposition 218 is certainly no exception to this evolving reality, and in this matter we have been advised that current legal interpretations of the applicability of Proposition 218 to rate differentials between similarly situated customers largely support your contention that rate differentials must be specifically supported by cost differentials.” [8-13-20 email]

We agree with this comment.

No Fiscal Impact of Permanently Discontinuing the Outside-City Water Surcharge

Your staff report for the Sept. 14 Water Commission meeting notes under Fiscal Impact:

“None identified at this time. It should be noted that reducing or eliminating the water rate differential for outside city customers will result in increasing rates for inside city customers.” [9-14-20 Staff Report]

You point out that there is no fiscal impact to eliminating the outside-City water surcharge. That’s because the rate setting process theoretically results in achieving the revenue necessary to operate, maintain and rehabilitate our supply, treatment and distribution systems over the next five years consistent with an approved rate structure, regardless of whether or not that rate structure includes an outside-City surcharge.

The second point was also well-highlighted in the June 6, 2016 City Council presentation for setting 2016 water rates. As far as we are aware, no member of the public or of the Council commented on or otherwise objected to reducing the outside-City surcharge during the 2016 rate setting process.

Similar to 2016, water rates will rise for everyone because revenue needs over the next decade or so will continue to be higher than in the past. This is due to the absolute necessity to rehabilitate our 60-year old reservoir, dam, treatment plant, wells and distribution systems to the high standards we expect as a community. Per the Water Supply Advisory Committee process which concluded in 2015, new water supplies are essential to ensure water quality and reliability in light of expected prolonged droughts and other climate disruptions caused by global warming.

Equitable Access to Water

As highlighted in our June 5 memo and noted above, State law has evolved over time to be more data-driven, including in the utility rate-setting arena. Together with ever-increasing reliance on science in general, community values are also undergoing fundamental shifts in our understanding of economic and cultural inequity and inequality. The Water Commission has identified “equitable access to water” as one of its most important objectives for the new rate structure.

Current sensitivities of the general public are reasonably focused on removing or mitigating entrenched inequities. Ongoing planning for water system improvements and their impact on customers’ water rates will be best served by eliminating the inequity of the outside-City surcharge early in the rate-setting process. In that way, we can focus on a successful collaborative and regional approach for addressing Santa Cruz area water infrastructure and operational needs into the future.

Proposed Cost of Water Distribution Assets Analysis

The City’s specified objective of this upcoming

“...evaluation of the cost of distribution assets specifically serving outside City customers...will be to assess whether, due to lower density of connections, for example, as assessed through the use of the meter equivalent unit approach used in the 2016 analysis, there is a cost that should be borne by outside City customers as compared to the cost associated with the same kind of facilities serving only inside City customers.” [8-13-20 email]

As noted in our June 5 memo [p.6, footnote 14]: “If best practices suggest that allocating water infrastructure resources is a legitimate aspect of rate setting and defining customer classes, then the practice should be applied to the entire water service area during the customer class definition stage of the rate setting process.” This kind of analysis would entail delineating rational neighborhood boundaries throughout the Water Department service area based on documented water use characteristics, not on City boundaries. The analytical basis for establishing such a ‘locational’ or ‘similarly-situated’ customer class would therefore be based on characteristics of distinct neighborhoods and justified by documented differences in water use and cost of delivery.

During the Sept. 14 Water Commission discussion on the cost of service item, the “issue of [population] density” was raised as possible justification for the outside-City surcharge. In response, on Sept. 15, 2020, we transmitted a regional population density map of the primary urbanized areas of Santa Cruz County (attached). As you can see, with the exception of UCSC on-campus housing, this map shows similar population densities throughout the urbanized area extending from Santa Cruz to Capitola/Soquel/Aptos.

Our position is that any analysis that distinguishes water customers based on whether or not a customer lives within the City limits is not consistent with our prior review nor with the requirements of State law. Therefore, we cannot consider the cost of distribution assets analysis proposed in your 8-13-20 email as responsive to the points and assertions outlined in our June 5 memo.

History Documentation

Your email notes that

“...the policy analysis memo...provided a thorough review of the history of the inside-outside rate differential...” [8/13/20 email]

To clarify, the history information presented in the June 5 memo should probably not be characterized as a “thorough review.” A thorough review would involve accessing City of Santa Cruz records pertaining to water rate setting within the Water Department and City Administration, and documenting associated deliberations and decisions during public meetings of the Water Commission and City Council over many decades.

Thank you very much for your attention to this matter.

cc: City Manager, City Attorney, County Counsel, Water Commission Chair and Vice-Chair, Sanjay Gaur

Attachment: Santa Cruz County Urbanized Area Population Density 2015.

<http://sustainabletransportationsc.org/popmap/>

