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CITY OF SANTA BARBARA

WATER COMMISSION REPORT

AGENDA DATE: April 19, 2018

TO: Water Commissioners

FROM: Water Resources Division, Public Works Department

SUBJECT: Proposed Changes to Fiscal Year 2019 Budget

RECOMMENDATION: That Water Commission recommend Council adopt the Water Fund Fiscal Year 2019 proposed operating and capital budgets as presented.

DISCUSSION:

In June of 2017, the City Council adopted a Two-Year Plan that included the adopted Fiscal Year 2018 budget and the proposed plan for Fiscal Year 2019 (status quo budget). The purpose of preparing a two-year plan is to minimize the workload impacts associated with developing and producing a budget each year.

City Departments are in the process of preparing their Fiscal Year 2019 budgets and reviewing proposed adjustments with City Administration. The Water Resources Division is tentatively scheduled to present its proposed Fiscal Year 2019 budget to Council on Monday, May 21, 2018, during a special budget work session. The figures in this report are based on staff's internal budget submission, and since that time some line items may have been adjusted, although not materially. Further changes may be made during the Council review and deliberation process.

Revenue Summary

Revenues for Fiscal Year 2018 are budgeted at \$52.5 million and staff projects ending the year with a positive variance of \$4.1 million. Fiscal Year 2019 overall revenues are proposed at \$57.4 million, which reflects a 2.5 percent revenue increase over the status quo budget and a 1.5 percent increase over the Fiscal Year 2018 end-of-year budget projections.

Staff is planning and budgeting for continued drought conditions through Fiscal Year 2020. Although customers have been increasing their water use in recent months, the City is not anticipating further rebounds in consumption in Fiscal Year 2019, given the potential for worsening drought and water supply conditions. Meaning, the water use projections are anticipated to stay the same as Fiscal Year 2018.

In August 2017, Council adopted water rates for three years – Fiscal Years 2018, 2019, and 2020. The adopted rates increase fixed monthly fees by approximately 6 percent each year while holding many of the volumetric rates flat, which equates to a 1.2 percent or \$1.47 increase to the moderate (10 HCF) single family residential user in Fiscal Year 2019. Under the water use assumption described above, staff is projecting Water Sales (fixed plus volumetric) to exceed the adopted Fiscal Year 2018 budget amount by approximately \$3 million, ending at \$51.7 million, and further increasing in Fiscal Year 2019 to \$53.4 million due to adopted rate increases. \$53.4 million is an increase of \$1.9 million from the original Fiscal Year 2019 Water Sales projection.

Aside from reimbursements attributable to unspent budgeted funds for the Cachuma Operations and Maintenance Board (COMB) and Cachuma Conservation Release Board (CCRB), all Water Fund revenue line items are projected to be at budget for Fiscal Year 2018 and have not been adjusted from the original Fiscal Year 2019 request.

Expenditure Summary

The Fiscal Year 2018 year-end budget is projected to come in under budget by \$6.1 million. The Fiscal Year 2019 operating budget is \$43.3 million, which is a \$395,000 increase from the status quo budget.

For Fiscal Year 2018, \$3.2 million in savings is related to the desalination project. Due to intermittent operation of the desalination facility in the first half of Fiscal Year 2018, staff is projecting operational savings of \$1.3 million. Additionally, the delay in completing the desalination project produced \$1.9 million in savings in debt service. With the plant expected to be fully operational throughout Fiscal Year 2019, staff does not anticipate continued operational and debt service cost savings. In addition to the desalination related budgetary savings, staff projects savings in the following items: \$305,000 in chemical treatment costs due to resting the groundwater basins; \$450,000 in paving expenses that were incorporated into the associated capital projects; and, \$300,000 from the variable cost portion of the state water payments to Central Coast Water Authority. There is also a projected savings of \$276,000 from the CCRB. Both COMB and CCRB adopt their budgets after the City, and at times the adopted budgets may be lower than original projections, creating budgetary savings for member agencies.

For Fiscal Year 2019, staff is proposing a net increase of \$395,000 from the original budget, which is comprised of the following proposed increases: \$450,000 for the City's estimated share of expenses related to installation of the pumping barge at Cachuma; \$125,000 for a system-wide water quality study; and, \$40,000 in allocated costs. These increases are partially mitigated by reductions in salary and benefit costs due to turnover, professional services costs related water rate development, treatment costs from resting the groundwater basins, and a reduction in the Fiscal Year 2019 CCRB budget estimate.

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Service Fees

Staff is proposing an across-the-board 3 percent fee increase to miscellaneous fees such as water service installations, plan review and on-site inspection fees, and setting and pulling of water meters, among others. These proposed changes are intended to keep up with the inflation of costs, as tracked by the CPI, and maintain full cost recovery for water services. Several fees have been re-costed due to changes in material or staffing costs that fall outside the general 3 percent increase.

Council Reserve Requirement and Capital Projects Funding

For Enterprise Funds such as the Water Fund, Council established a reserve requirement based on a percentage of each fund's operating budget and average funding level for capital improvement projects. The reserve requirement for the Water Fund totals approximately \$17.4 million. At year end for Fiscal Year 2018, staff is projecting to have approximately \$23 million in reserves above the Council requirement. Higher than expected water sales coupled with operational costs savings due to delays in the desalination project have produced better than expected year-end financial results in Fiscal Years 2016, 2017, and what is projected for 2018.

In addition to the positive operating results, the City was recently awarded a \$10 million grant under the California Department of Water Resources Round 4 Water Desalination Grant Program, which is funded by Proposition 1. The \$10 million award, when actually received, will be in addition to the \$23 million in reserves noted above.

The one-time surplus of reserves will support rate stability and, additionally, allow staff to program funds in Fiscal Year 2019, and future years, for capital projects that have been deferred due to resources being redirected towards drought management efforts. The proposed Fiscal Year 2019 capital projects budget is \$16.25 million, reflecting an increase of \$6.6 million from the originally proposed Fiscal Year 2019 capital budget. Attached to this report is a description of proposed Fiscal Year 2019 capital projects.

The Fiscal Year 2019 budget was originally proposed with the use of approximately \$5.1 million of reserves. The proposed increase in capital projects funding is offset by raised estimates for Water Sales revenue, resulting in an estimated use of reserves in Fiscal Year 2019 of \$8.5 million.

ATTACHMENT: Proposed Fiscal Year 2019 Water Capital Program

PREPARED BY: Malcolm Hamilton, Administrative Analyst/sk

SUBMITTED BY: Joshua Haggmark, Water Resources Manager



PROPOSED FY 19 CAPITAL BUDGET

Project Title	FY 2019 Proposed Plan	Mid-Cycle Adjustments	FY 2019 Recommended
WATER FUND			
Advanced Metering Infrastructure <i>Replaces the City's water meters and makes associated improvements, including replacing meter boxes, and related infrastructure as needed</i>	-	500,000	500,000
Alameda Well Pipeline to Ortega Groundwater Treatment Plant <i>Funds construction of a pipeline from Alameda Well to Ortega Groundwater Treatment Plant, which will provide an additional reliable source of supply and ensures compliance with secondary drinking water standards</i>	-	750,000	750,000
Annual Water Main Replacement Program <i>Annual program of replacement of 1% (approximately 16,000 feet) of the City's water distribution piping system</i>	4,700,000	4,000,000	8,700,000
Water Supply Optimization Study <i>To analyze existing water supplies for water quality purposes, identifying blending strategies, and storage options</i>	-	200,000	200,000
Cater Treatment Plant Equipment Rehabilitation <i>Annual capital program for the Cater Water Treatment Plant including baseline maintenance, filter media replacement, data/control system (SCADA) and equipment upgrades, and process improvements</i>	1,000,000	-	1,000,000
Desal Conveyance Pipeline <i>Funds new pipeline design and existing transmission system needs to convey water from the Charles D. Meyer Desalinization Plant to the William B. Cater Water Filtration Plant for enhanced treatment and distribution purposes</i>	-	250,000	250,000
Distribution Pump Station Rehabilitation <i>The Distribution Pump Station Program includes baseline maintenance, upgrades to El Cielito, Cater Cross-Tie, Sheffield and Tunnel Pump Stations, plus rehabilitation of the City's Pressure Reducing Stations.</i>	1,800,000	-	1,800,000
Distribution Reservoir Maintenance Program <i>This program includes baseline maintenance of the City's water storage reservoirs including, upgrades to Vic Trace Reservoir, seismic retrofit to Reservoir No 1, 2 East, and Tunnel, and replacement of reservoir control valves.</i>	850,000	-	850,000
Groundwater Supply Program <i>Annual program for baseline well system component maintenance and rehabilitation of the Ortega Groundwater Treatment plant and city wells</i> <i>Funding: Drought Fund - \$350,000 FY 2018 & FY 2019; Water Capital Fund - \$100,000 FY 2019</i>	450,000	-	450,000



CAPITAL BUDGET BY FUND

Project Title	FY 2019 Proposed Plan	Mid-Cycle Adjustments	FY 2019 Recommended
WATER FUND (Continued)			
Recycled Water Program <i>Project includes golf course reservoir data/control system (SCADA) upgrades, water conservation retrofits at city facilities, and baseline maintenance for the recycled water system</i>	350,000	-	350,000
Hydroelectric Tunnel Modifications <i>To improve functionality of the existing tunnel which conveys water from the Gibraltar Reservoir to the hydroelectric facility located at Lauro Reservoir</i>	-	150,000	150,000
Water Meter Replacement Program <i>Program to replace the City's water meters and make associated improvements, including replacing meter boxes, valves, etc. as needed</i>	500,000	-	500,000
Water System Infrastructure Plan <i>Funds analysis of water distribution system needs for capacity, resiliency, and replacement planning purposes</i>	-	750,000	750,000
Total Water Fund	9,650,000	6,600,000	16,250,000