

Sewer Service and Use Charge Fund

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T*o account for the financing, construction, and operation of the sanitary sewer system and for San José's share of the financing, construction, and operation of the regional San José/Santa Clara Water Pollution Control Plant (WPCP). Services provided through this fund are:*

- *Sewer maintenance;*
- *Sewer construction and rehabilitation;*
- *Sewage treatment at the Water Pollution Control Plant; and*
- *Water Pollution Control Plant Renovation.*

Sewer Service and Use Charge Fund

Budget Summary

	2014-2015 Adopted	2015-2016 Adopted	Change
Sewer System Maintenance and Admin.	\$ 31,963,394	\$ 29,232,640	(8.5%)
Sanitary Sewer Rehabilitation	\$ 23,000,000	\$ 32,000,000	39.1%
Water Pollution Control Plant	\$ 100,000,000	\$ 79,202,000	(20.8%)

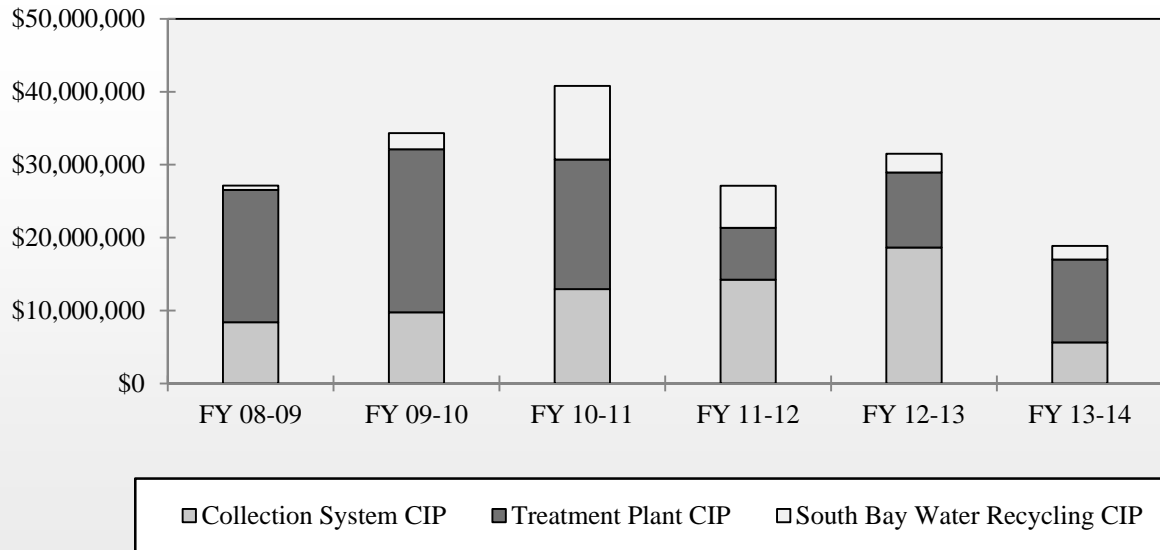
Budget Highlights 2015-2016

- ❑ Addition of one Engineer I/II to manage ongoing efforts to reduce sanitary sewer overflows, including the root control, easement, and siphon cleaning programs.

❑ Funding for one Principal Engineering Technician to manage regulatory compliance for sewer maintenance operations in the Transportation Department.
- ❑ A fund increase of 5.5% in the Sewer Service and Use Charge was approved for 2015-2016 to allow for continued rehabilitation and replacement of critical infrastructure and equipment at the WPCP and an increased level of rehabilitation of the sanitary sewer collection system.

Budget Byte

Sewer Service and Use Charge Fund
Historical Trend of Actual Expenditures for Capital Projects
(Includes Collection System, Treatment Plant, and Recycled Water Programs)



Direct, SSUC funded expenditures only, excludes debt service, and other indirect costs

Sewer Service and Use Charge Fund

Fund Overview

The Sewer Service and Use Charge Fund serves as the primary revenue source for several other funds, including the San José-Santa Clara Treatment Plant Operating and Capital Funds and the Sewer Service and Use Charge Capital Improvement Fund. In coordination with the Environmental Services, Public Works, and Transportation Departments, these funds are managed to deliver services in the most efficient and cost-effective manner.

The primary source of the Sewer Service and Use Charge Fund's revenues are property tax-based assessments within the residential and commercial sectors. In 2015-2016, an overall fund rate increase of 5.5% was approved, combined with base rate changes due to the City Council approved Sanitary Sewer Flow Study Update, which updated residential flow assumptions, the majority of which had not been updated since 1975. As a result of this update, single-family, multi-family, and mobile home residences have realized changes at different levels.

There are different percentage increases for each residential customer category resulting in the following rate changes: a single-family residence will decrease in 2015-2016 by \$0.08 per month compared to 2014-2015, from \$33.83 to \$33.75 per month; a multiple-family residence (per unit) will increase by \$3.27 per month, from \$19.35 to \$22.62 per month; and a mobile home (per unit) will increase by \$6.09 per month, from \$19.39 to \$25.48 per month. When added with the commercial and industrial categories that increased between 8.86% and 10.42%, the overall fund increase is 5.5%. The fund increase will generate additional revenue estimated at \$7.3 million in 2015-2016. This increase is necessary in order to provide sufficient funding for deferred capital rehabilitation for the sewer system and the treatment plant facility; address changes to regulatory requirements; and keep pace with the inflationary costs associated with the operations and maintenance of both systems. Through notices mailed in April 2015, rate payers were notified of annual fund increases of up to 5.5% in 2015-2016 and up to 7% in 2016-2017 and 2017-2018. With the expected ramp up of capital expenditures, as described in the 2016-2020 Adopted Capital Improvement Program (CIP), the need for a rate increase will be reassessed annually and any necessary increases will be brought forward for City Council consideration as part of the annual proposed budget process.

Due to the aging infrastructure of the sanitary sewer system and WPCP, comprehensive master planning efforts to rehabilitate and replace the infrastructure were completed. In November and December 2013, respectively, the San José and Santa Clara City Councils adopted the Plant Master Plan (PMP) and approved the associated Environmental Impact Report (EIR). The projects included in the 2016-2020 Adopted CIP are based on the outcome of a program validation process that evaluated project needs and priorities. A similar plan is under development for the sanitary sewer system. The Sanitary Sewer Master Plan final report was completed in April 2013 after the program-level EIR for recommended projects was prepared as an Addendum to the Envision San José 2040 General Plan (General Plan) EIR in September 2012. High priority projects have been programmed in the 2016-2020 Adopted CIP. Increased resources will be directed toward the Sanitary Sewer Condition Assessment Program and Condition Assessment Sewer Repairs to reduce the number of sanitary sewer overflows. Both the master planning and condition assessment programs will identify sanitary sewer system needs and priorities for the next 30 years, and will be used to guide capital budget planning.

Sewer Service and Use Charge Fund

Fund Overview

In addition to the anticipated need for increased capital funding, standard inflationary factors, such as price increases for chemicals, energy, materials, and other items associated with the operations and maintenance of both systems, may necessitate rate increases in future years.

The total 2015-2016 Ending Fund Balance (\$40.0 million) in the Sewer Service and Use Charge Fund includes several reserves totaling \$37.7 million, excluding the Reserve for Encumbrances. The reserves with the largest funding include the Capital Program/Financing Reserve (\$24.0 million), for future capital projects and the financing strategy being developed for the Plant, and the Debt Service Reserve (\$6.0 million), which is established in accordance with the covenants of the bonds issued in 1995 for the construction of the South Bay Water Recycling (SBWR) project, and represents a source of funds if revenues are ever insufficient to satisfy annual obligations. The Operations and Maintenance Reserve (\$4.6 million), which is set to approximately two months of operating expenditures, is intended to provide for system needs in case of unforeseen emerging circumstances. The purpose of the Rate Stabilization Reserve (\$2.0 million) is to offset any unexpected or unforeseen costs that would require rate increases.

Fund Summary

	2013-2014 Actual 1	2014-2015 Adopted 2	2015-2016 Adopted 3	% Change (2 to 3)
Dollars by Sources				
Beginning Fund Balance	\$ 49,081,344	\$ 55,861,657	\$ 39,156,577	(29.9%)
Sewer Service and Use Charges	131,295,406	132,236,424	140,962,420	6.6%
Interest and Other Revenue	426,556	230,616	332,300	44.1%
Transfers	227,200	0	0	
Total	\$ 181,030,506	\$ 188,328,697	\$180,451,297	(4.2%)
Dollars by Uses				
Sewer System Maintenance and Administration	\$ 24,871,216	\$ 31,963,394	\$ 29,232,640	(8.5%)
Sanitary Sewer Construction and Rehabilitation	23,600,000	23,000,000	32,000,000	39.1%
Water Pollution Control Plant	75,576,000	100,000,000	79,202,000	(20.8%)
Ending Fund Balance				
Billing Transition Reserve	1,100,000	13,200	13,200	0.0%
Capital Program/Financing Reserve	26,000,000	12,000,000	24,000,000	100.0%
Debt Service Reserve	6,000,000	6,000,000	6,000,000	0.0%
Salaries and Benefits Reserve	0	91,312	0	(100.0%)
Operations and Maintenance Reserve	4,716,299	4,662,000	4,560,047	(2.2%)
Rate Stabilization Reserve	2,000,000	2,000,000	2,000,000	0.0%
Reserve for Encumbrances	1,600,260	2,407,922	1,600,260	(33.5%)
Retiree Healthcare Solutions Reserve	260,000	260,000	412,097	58.5%
Workers' Comp Claims Reserve	760,000	760,000	760,000	0.0%
Unrestricted	14,546,731	5,170,869	671,053	(87.0%)
Ending Fund Balance Subtotal	56,983,290	33,365,303	40,016,657	19.9%
Total	\$ 181,030,506	\$ 188,328,697	\$180,451,297	(4.2%)

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Overview

This category provides for Sewer System Maintenance and Administrative Services. Sewer system maintenance and repair of damaged sewer pipes are performed by the Transportation (DOT) and Public Works (PW) Departments. The Information Technology (IT) Department costs are also included in Sewer System Maintenance, reflecting the supporting role that IT plays in maintaining the system. Administrative Services includes costs for support services provided by various City departments, overhead reimbursements to the General Fund, fees charged by the County for collecting assessments, and audit costs.

Significant augmentations for 2015-2016 in Sewer System Maintenance include DOT funding for 1.0 Engineer II to manage the root control, easement, and siphon cleaning programs (\$89,000) and 0.5 Principal Engineering Technician to manage regulatory compliance for sewer maintenance and operations (\$46,000). Other changes in Sewer System Maintenance include the elimination of one-time DOT funding added in 2014-2015 for the replacement of combination cleaning vehicles (\$1,750,000), homeowner grants to repair sewer service laterals (\$300,000), and pump station maintenance vehicles (\$90,000); the elimination of funding in IT for Integrated Billing System (IBS) Licensing (\$91,672); and a staffing reorganization due to tax roll utility billing (\$31,709).

Administrative Services realized a decrease in 2015-2016, due primarily to a base reduction for one-time project costs associated with the conversion of the current utility Integrated Billing System (IBS) to a new Customer Information System (CIS).

Budget Category Summary

Sewer System Maintenance and Administrative Services	2013-2014 Actual 1	2014-2015 Adopted 2	2015-2016 Adopted 3	% Change (2 to 3)
Sewer System Maintenance	\$ 17,711,387	\$ 21,805,604	\$ 19,317,517	(11.4%)
Administrative Services	7,159,829	10,157,790	9,915,123	(2.4%)
Total	\$ 24,871,216	\$ 31,963,394	\$ 29,232,640	(8.5%)

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

The following changes are included in 2015-2016 in the Sewer System Maintenance and Administrative Services category:

Adopted Allocation	2014-2015 Adopted	2015-2016 Adopted	Change
Sewer System Maintenance	\$21,805,604	\$19,317,517	(\$2,488,087)

Base Adjustments

(One-time Prior Year Expenditures Deleted/Technical Adjustments to Costs of Ongoing Activities):

• Various Departments Personal Services	Salary/benefit changes, position reallocations, and other changes	\$67,945
• International Disposal Corporation of California, Inc. (IDC) Contract	Contractual based inflation allowance	\$10,000
• DOT Non-Personal/ Equipment	Removal of one-time funding related to Sanitary Sewer Program cleaning vehicles and maintenance services, Computerized Maintenance Management System (CMMS) purchase, and sewer lateral repair grant	(\$2,381,000)
• DOT Personal Services	Salary/benefit changes, position reallocations, and other changes	(\$761,783)
• Various Departments Non-Personal/ Equipment	Miscellaneous Non-Personal/Equipment changes	(\$112,983)
Subtotal Base Adjustments		(\$3,177,821)

Budget Proposals Approved

• DOT Personal Services	Salary Program	\$356,022
	Sanitary Sewer Maintenance Staffing	\$88,886
	Maintenance and Operating Regulatory Compliance Staffing	\$45,689
• DOT Non-Personal/Equipment	Rebudget: Computerized Maintenance Management System	\$250,000
• PW Personal Services	Salary Program	\$61,905
• IT Personal Services/Non-Personal/Equipment	Salary Program	\$10,613
	IBS license reduction	(\$91,672)
	Staff reorganization for tax roll utility billing	(\$31,709)
Subtotal Budget Proposals Approved		\$689,734

Total Sewer System Maintenance	(\$2,488,087)
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Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation	2014-2015 Adopted	2015-2016 Adopted	Change
Administrative Services	\$10,157,790	\$9,915,123	(\$242,667)

Base Adjustments

(One-time Prior Year Expenditures Deleted/Technical Adjustments to Costs of Ongoing Activities):

• Overhead	Net change in overhead reimbursements resulting from staffing changes, compensation, and overhead rate adjustments	\$234,056
• ESD Personal Services	Salary/benefit changes, position reallocations, and other changes	\$85,325
• Transfer to General Fund for Human Resources/Payroll/Budget Systems Upgrade	Net change in funding for Human Resources/Payroll/Budget Systems Upgrade	\$60,867
• Collection Costs	Technical adjustments to costs incurred for sanitary sewer fee collection	\$43,884
• Workers Compensation Claims	Workers' Compensation Claims adjustment	\$6,356
• ESD Non-Personal/Equipment	Miscellaneous Non-Personal/Equipment changes	\$4,557
• Transfer to the City Hall Debt Service Fund	Increased City Hall Debt Service allocation	\$40
• Billing System Transition	Reduction in Customer Information System Transition	(\$1,031,800)
• Various Departments Personal Services	Salary/benefit changes, position reallocations, and other changes	(\$5,391)
Subtotal Base Adjustments		(\$602,106)

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Proposed Allocation	2014-2015 Adopted	2015-2016 Adopted	Change
Administrative Services			
<u>Budget Proposals Approved</u>			
• Customer Information System Transition	Rebudget: Customer Information System Transition		\$250,000
• ESD Personal Services	Salary Program		\$26,210
• Finance Department Personal Services	Salary Program		\$18,117
• City Attorney's Office Personal Services	Salary Program		\$15,121
• Planning, Building and Code Enforcement Department Personal Services	Salary Program		\$2,181
• Human Resources Department Personal Services	Salary Program		\$862
• City Manager's Office Personal Services	Salary Program		\$657
• City Auditor's Office Personal Services	Salary Program		\$370
• Overhead	Net change in overhead reimbursement resulting from staffing changes		\$45,921
	Subtotal Budget Proposals Approved		\$359,439
Total Administrative Services			(\$242,667)
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Total Sewer System Maintenance and Administrative Services	\$31,963,394	\$29,232,640	(\$2,730,754)

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Construction and Rehabilitation

Budget Category Overview

The Sanitary Sewer Construction and Rehabilitation category consists of capital projects designed to rehabilitate the system and enhance sewer capacity to meet economic development needs. Rehabilitation projects of existing sewers are developed based on the physical condition of the pipes obtained from the Sanitary Sewer Condition Assessment program, which uses video inspection, maintenance reports, infiltration analysis, and actual pipe failures. Capacity improvement projects are determined by a process that incorporates Census 2010 population, land use planning per the General Plan, water use and flow monitoring data, and design criteria for estimating wastewater flows in a computer hydraulic model of the trunk sewer system.

The vast majority of the sanitary sewer collection system (80%) consists of small (6-inch and 8-inch diameter) sewer mains that serve established residential neighborhoods. These small-diameter neighborhood sewer systems are the most common locations for blockage and sewer backups and require a significant portion of Sanitary Sewer System funding to upsize, rehabilitate, and/or replace.

The Sanitary Sewer Master Plan Report, completed in April 2013, identified city-wide trunk sewer system deficiencies for existing, near-term, and long-term (i.e. General Plan) land-use scenarios and recommended 93 capacity improvement projects totaling approximately \$175.0 million. The near-term projects will be phased over a 20-year period.

Funding from the Sewer Service and Use Charge Fund for the Sanitary Sewer Capital Program is programmed at \$32.0 million in 2015-2016 and for each of the remaining four years, for a total of \$160.0 million for the 2016-2020 Adopted CIP. Funding in the CIP includes capacity improvement and rehabilitation projects to prevent sanitary sewer overflows and will be used to manage system capacity, assess the system's condition, and construct sewer improvement projects. Included in this amount is an additional \$7.0 million annual transfer from the 2015-2019 Adopted CIP for the Sanitary Sewer Collection System, to help address infrastructure rehabilitation needs.

Budget Category Summary

Sanitary Sewer Construction and Rehabilitation	2013-2014 Actual 1	2014-2015 Adopted 2	2015-2016 Adopted 3	% Change (2 to 3)
Transfer to SSUC Capital Fund	\$ 23,600,000	\$ 23,000,000	\$ 32,000,000	39.1%
Total	\$ 23,600,000	\$ 23,000,000	\$ 32,000,000	39.1%

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Construction and Rehabilitation

Budget Category Summary

The following changes are included in 2015-2016 for the Sanitary Sewer Construction and Rehabilitation category:

Adopted Allocation	2014-2015 Adopted	2015-2016 Adopted	Change
Sanitary Sewer Construction and Rehabilitation	\$23,000,000	\$32,000,000	\$9,000,000

Budget Proposals Approved

<ul style="list-style-type: none"> • Transfer to Sewer Service and Use Charge Capital Improvement Fund 	<p>This transfer supports major projects in the Sanitary Sewer Capital Program to address infrastructure rehabilitation and replacement needs in the City's sanitary sewer system. The specific elements of this program are described in the 2016-2020 Adopted CIP.</p>	<p>\$9,000,000</p>
<p>Subtotal Budget Proposals Approved</p>		<p>\$9,000,000</p>

Total Sanitary Sewer Construction and Rehabilitation	\$23,000,000	\$32,000,000	\$9,000,000
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Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Overview

This category provides for operational and capital costs, support services, and debt service requirements for the Plant. This regional wastewater treatment facility serves seven tributary sewage collection agencies, including municipalities and sanitary sewer districts. The Plant processes wastewater, operates a Bio-solids Reuse Program, and administers the South Bay Water Recycling Program. The capital costs in this category provide for planning, design, and construction of wastewater treatment assets at the Plant.

The Plant is one of the largest and most complex advanced wastewater treatment facilities in the nation. The Plant's operating and maintenance program continues its core function of meeting the Plant's National Pollutant Discharge Elimination System (NPDES) permit by ensuring that flows from the sanitary sewer system to the San Francisco Bay are free of pollutants. The Plant also continues its multi-year asset management and facility reliability efforts, including preventative maintenance programs. In addition to the preventative maintenance program at the Plant, a robust capital improvement program is currently underway to rehabilitate the Plant and upgrade systems to modern treatment and control technology.

The majority of the Plant's infrastructure is now more than 50 years old and significant rehabilitation or replacement is needed in every process area. In February 2014, a project validation process was completed to update and prioritize more than 100 capital improvement projects recommended by the PMP. The validation process resulted in 33 project packages that are to be initiated in the next ten years, totaling about \$1.4 billion in capital projects. Funding this large capital improvement program at the Plant will require a combination of cash and debt financing. Staff continues to work with the City of Santa Clara and the tributary agencies to develop a long-term funding strategy and financing plan that will explore the use of a commercial paper program, variable rate debt, and California Clean Water Act State Revolving Fund (SRF) loans in addition to traditional long-term fixed rate debt, with the overall goal of minimizing the cost of borrowing to the maximum extent practical. The funding strategy will include a base level of cash-funded capital projects and incorporate associated operations and maintenance costs. It will also consider and recommend new reserve levels going forward based on industry and financing best practices.

Budget Category Summary

	2013-2014 Actual 1	2014-2015 Adopted 2	2015-2016 Adopted 3	% Change (2 to 3)
Water Pollution Control Plant				
Treatment Plant Operating Fund	\$ 41,000,000	\$ 52,000,000	\$ 47,500,000	(8.7%)
Treatment Plant Capital Fund	34,576,000	48,000,000	31,702,000	(34.0%)
Total	\$ 75,576,000	\$ 100,000,000	\$ 79,202,000	(20.8%)

Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Summary

The following changes are included in 2015-2016 in the Water Pollution Control Plant category:

Adopted Allocation	2014-2015 Adopted	2015-2016 Adopted	Change
Treatment Plant Operating Fund	\$52,000,000	\$47,500,000	(\$4,500,000)
<u>Budget Proposals Approved</u>			
<ul style="list-style-type: none"> • Transfer to the San José-Santa Clara Treatment Plant Operating Fund 	This transfer provides funding for program expenses related to the Water Pollution Control Plant. Transfer amounts from this fund to the Treatment Plant Operating Fund vary each year based on anticipated operating expenditures and the anticipated ending fund balance in that fund.		(\$4,500,000)
Subtotal Budget Proposals Approved			(\$4,500,000)
Total Treatment Plant Operating Fund			(\$4,500,000)
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Adopted Allocation	2014-2015 Adopted	2015-2016 Adopted	Change
Treatment Plant Capital Fund	\$48,000,000	\$31,702,000	(\$16,298,000)
<u>Budget Proposals Approved</u>			
<ul style="list-style-type: none"> • Transfer to the San José-Santa Clara Treatment Plant Capital Fund 	This transfer supports capital projects in the Water Pollution Control Plant CIP. The 2015-2016 decrease reflects a leveling-off in the transfer to the Plant Capital Fund and the use of debt financing for the Plant CIP.		(\$16,298,000)
Subtotal Budget Proposals Approved			(\$16,298,000)
Total Treatment Plant Capital Fund			(\$16,298,000)
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Total Water Pollution Control Plant	\$100,000,000	\$79,202,000	(\$20,798,000)