

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

	2013-2014 Adopted	2014-2015 Adopted	Change
Sewer System Maintenance and Admin.	\$ 28,909,657	\$ 31,963,394	10.6%
Sanitary Sewer Rehabilitation	\$ 23,600,000	\$ 23,000,000	(2.5%)
Water Pollution Control Plant	\$ 75,576,000	\$ 100,000,000	32.3%

Budget Highlights 2014-2015

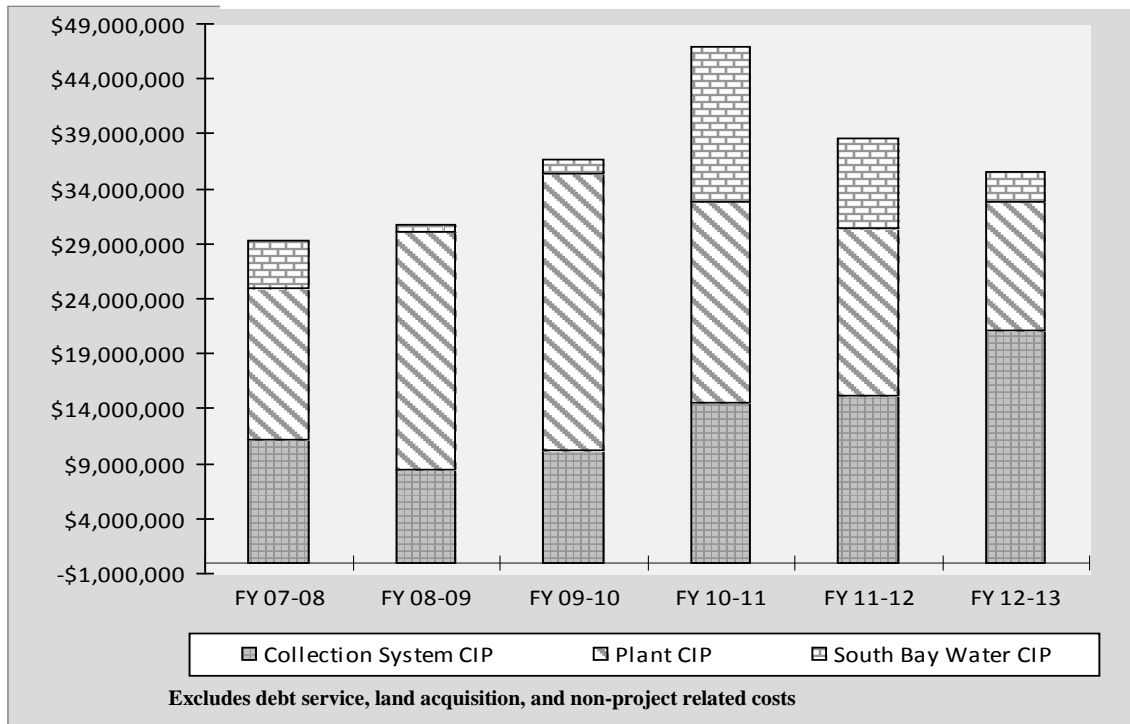
- ❑ Ongoing funds to provide a consistent funding source to replace maintenance vehicles as they age or become outdated.

❑ Addition of two sewer pump crew positions to ensure proper maintenance of the growing pump station inventory.
- ❑ One-time funding for a Sewer Lateral Repair Grant to fund up to 50% of the cost (not to exceed \$3,500) of a resident's sewer lateral replacement.

❑ Sewer Service and Use Charge rates remain at 2013-2014 levels, with no increase for 2014-2015.

Budget Byte

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



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 Departments of Environmental Services, Public Works, and Transportation, 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. As in 2013-2014, there is no rate increase in 2014-2015, with the average cost for a single family household remaining at \$33.83 per month. The ability to avoid a rate increase is due, in large part, to the vacancy savings realized within the fund over the past three years, which led to a healthy fund balance. With the expected ramp up of capital expenditures as described in the 2015-2019 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, with a rate increase proposal likely in 2015-2016.

Due to the aging infrastructure of the sanitary sewer system and Water Pollution Control Plant (Plant), 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 2015-2019 Adopted CIP are based on the outcome of a detailed project validation process that critically 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 General Plan EIR in September 2012. High priority projects have been programmed in the current 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. As master plan recommendations are studied and possible technologies evaluated, larger annual capital programs are expected to be proposed for both systems in the coming years.

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.

Sewer Service and Use Charge Fund

Fund Overview

The total 2014-2015 Ending Fund Balance (\$33.4 million) in the Sewer Service and Use Charge Fund includes several reserves totaling \$25.8 million, excluding the Reserve for Encumbrances. The reserves with the largest funding include the Capital Program Reserve (\$12.0 million) for future capital projects, 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 (\$4.7 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

	2012-2013 Actual 1	2013-2014 Adopted 2	2014-2015 Adopted 3	% Change (2 to 3)
Dollars by Sources				
Beginning Fund Balance	\$ 39,703,466	\$ 44,417,194	\$ 55,861,657	25.8%
Sewer Service and Use Charges	130,890,430	127,846,137	132,236,424	3.4%
Interest and Other Revenue	162,747	191,722	230,616	20.3%
Total	\$ 170,756,643	\$ 172,455,053	\$ 188,328,697	9.2%
Dollars by Uses				
Sewer System Maintenance and Administration	\$ 24,363,299	\$ 28,909,657	\$ 31,963,394	10.6%
Sanitary Sewer Construction and Rehabilitation	25,000,000	23,600,000	23,000,000	(2.5%)
Water Pollution Control Plant	72,312,000	75,576,000	100,000,000	32.3%
Ending Fund Balance				
Billing Transition Reserve	1,100,000	1,100,000	13,200	(98.8%)
Capital Program Reserve	24,000,000	26,000,000	12,000,000	(53.8%)
Debt Service Reserve	6,000,000	6,000,000	6,000,000	0.0%
Employee Compensation Planning Reserve	0	251,100	91,312	(63.6%)
Operations and Maintenance Reserve	4,288,977	4,244,263	4,662,000	9.8%
Rate Stabilization Reserve	2,000,000	2,000,000	2,000,000	0.0%
Reserve for Encumbrances	2,407,922	1,440,970	2,407,922	67.1%
Retiree Healthcare Solutions Reserve	0	0	260,000	N/A
Retirement Pre-Payment Reserve	78,000	0	0	0.0%
Workers' Comp Claims Reserve	760,000	760,000	760,000	0.0%
Unrestricted	8,446,445	2,573,063	5,170,869	101.0%
Ending Fund Balance Subtotal	49,081,344	44,369,396	33,365,303	(24.8%)
Total	\$ 170,756,643	\$ 172,455,053	\$ 188,328,697	9.2%

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 Departments of Transportation (DOT) and Public Works (PW). Information Technology (IT) Department costs are also included in Sewer System Maintenance, reflecting the supporting role that the IT Department 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 2014-2015 in Sewer System Maintenance include DOT ongoing funding for sewer equipment replacement (\$1.0 million), one-time funding to provide grants to homeowners who repair their sewer service laterals (\$300,000), and funding for pump station maintenance staffing (2014-2015 funding of \$182,000, of which \$106,000 will be ongoing).

Budget Category Summary

Sewer System Maintenance and Administrative Services	2012-2013 Actual 1	2013-2014 Adopted 2	2014-2015 Adopted 3	% Change (2 to 3)
Sewer System Maintenance	\$ 17,125,773	\$ 20,366,154	\$ 21,805,604	7.1%
Administrative Services	7,237,526	8,543,503	10,157,790	18.9%
Total	\$ 24,363,299	\$ 28,909,657	\$ 31,963,394	10.6%

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

The following changes are included in 2014-2015 in the Sewer System Maintenance and Administrative Services category:

Adopted Allocation	2013-2014 Adopted	2014-2015 Adopted	Change
Sewer System Maintenance	\$20,366,154	\$21,805,604	\$1,439,450

Base Adjustments

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

• DOT Personal Services	Salary/benefit changes, position reallocations, and other changes	\$562,182
• Various Departments Personal Services	Salary/benefit changes, position reallocations, and other changes	\$11,301
• DOT Non-Personal/ Equipment	Removal of one-time funding relating to Sanitary Sewer Program cleaning vehicles and maintenance services, Sanitary Sewer fleet replacement, and Computerized Maintenance Management System (CMMS) purchase	(\$2,827,109)
• Various Departments Non-Personal Equipment	Miscellaneous Non-Personal/Equipment changes	(\$117,980)
• IDC Disposal Contract	Reduction to reflect revised methodology for calculating distribution of city waste disposal	(\$24,850)
Subtotal Base Adjustments		(\$2,396,456)

Budget Proposals Approved

• DOT Non-Personal/ Equipment	Rebudget: Combination Cleaner Vehicles	\$1,750,000
	Sanitary Sewer fleet replacement	\$1,000,000
	Sewer Lateral Repair Grant	\$300,000
	Rebudget: Computerized Maintenance Management System	\$250,000
	Sanitary Sewer Pump Maintenance Crew vehicles	\$108,000
• DOT Personal Services	Salary Program	\$249,414
	Sanitary Sewer Pump Maintenance Crew staffing	\$74,000
• PW Non-Personal/ Equipment	Rebudget: Sewage Geographic Information System Program	\$100,000
• PW Personal Services	Salary Program	\$21,573
• IT Personal Services	Salary Program	\$2,965
	Customer Contact Center staffing	(\$20,046)
Subtotal Budget Proposals Approved		\$3,835,906

Total Sewer System Maintenance	\$1,439,450
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Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation	2013-2014 Adopted	2014-2015 Adopted	Change
Administrative Services	\$8,543,503	\$10,157,790	\$1,614,287

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	\$357,372
• Workers Compensation Claims	Workers' Compensation Claims adjustment	\$64,250
• Transfer to the City Hall Debt Service Fund	Increased City Hall Debt Service allocation	\$2,603
• ESD Non-Personal/ Equipment	Elimination of one-time funding and base adjustments	\$1,288
• Various Departments Personal Services	Salary/benefit changes, position reallocations, and other changes	(\$10,697)
Subtotal Base Adjustments		\$414,816

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation	2013-2014 Adopted	2014-2015 Adopted	Change
Administrative Services	\$8,543,503	\$10,157,790	\$1,614,287
<u>Budget Proposals Approved</u>			
• Billing System Transition	Customer Information System Transition		\$1,086,800
• Workers Compensation Claims	Workers' Compensation Claims Adjustment		\$50,000
• Transfer to General Fund for Human Resources/Payroll System Upgrade	One-time General Fund transfer for Human Resources/Payroll System Upgrade		\$22,968
• Overhead	Net change in overhead reimbursements resulting from staffing changes		\$16,349
• ESD Personal Services	Salary Program		\$13,383
	Integrated Billing System Transition and Administrative Services Support and Watershed Protection Division staffing changes		(\$16,554)
• Office of the City Attorney Personal Services	Salary Program		\$12,871
• Finance Department Personal Services	Salary Program		\$12,044
• Planning, Building, and Code Enforcement Department (PBCE) Personal Services	Salary Program		\$2,194
• Office of the City Manager Personal Services	Salary Program		\$500
• Human Resources Department (HR) Personal Services	Salary Program		\$486
• Office of the City Auditor Personal Services	Salary Program		\$258
• ESD Non-Personal/ Equipment	Sewer Service Conservation Program Elimination		(\$1,828)
Subtotal Budget Proposals Approved			\$1,199,471
Total Administrative Services			\$1,614,287
Total Sewer System Maintenance and Administrative Services	\$28,909,657	\$31,963,394	\$3,053,737

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 using 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 Envision San José 2040 General Plan (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, with the final 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 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 \$23 million in 2014-2015 and increases to \$25 million per year for each of the remaining four years of the 2015-2019 CIP. The funding in the CIP includes capacity improvement and rehabilitation projects to prevent sanitary sewer overflows. Funding will be used to manage system capacity, to assess the system's condition, and to construct sewer improvement projects.

Budget Category Summary

Sanitary Sewer Construction and Rehabilitation	2012-2013 Actual 1	2013-2014 Adopted 2	2014-2015 Adopted 3	% Change (2 to 3)
Transfer to SSUC Capital Fund	\$ 25,000,000	\$ 23,600,000	\$ 23,000,000	(2.5%)
Total	\$ 25,000,000	\$ 23,600,000	\$ 23,000,000	(2.5%)

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Construction and Rehabilitation

Budget Category Summary

The following changes are included in 2014-2015 for the Sanitary Sewer Construction and Rehabilitation category:

Adopted Allocation	2013-2014 Adopted	2014-2015 Adopted	Change
Sanitary Sewer Construction and Rehabilitation	\$23,600,000	\$23,000,000	(\$600,000)

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 2015-2019 Adopted Capital Improvement Program. The Public Works Department is presently evaluating the needs of the Sanitary Sewer Capital Program through the development of a system assessment and the completed master plan.</p>	<p>(\$600,000)</p>
<p>Subtotal Budget Proposals Approved</p>		<p>(\$600,000)</p>

Total Sanitary Sewer Construction and Rehabilitation	\$23,600,000	\$23,000,000	(\$600,000)
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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 San José/Santa Clara Water Pollution Control Plant (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 September 2013, a program management consultant was hired to develop a program implementation strategy that will incorporate new tools, systems, procedures, delivery approaches, and financing alternatives. The estimated investment level, over the next 30 years, is approximately \$2 billion, with over \$1 billion being invested in the next ten to fifteen years.

Budget Category Summary

Water Pollution Control Plant	2012-2013 Actual 1	2013-2014 Adopted 2	2014-2015 Adopted 3	% Change (2 to 3)
Treatment Plant Operating Fund	\$ 49,000,000	\$ 41,000,000	\$ 52,000,000	26.8%
Treatment Plant Capital Fund	23,312,000	34,576,000	48,000,000	38.8%
Total	\$ 72,312,000	\$ 75,576,000	\$ 100,000,000	32.3%

Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Summary

The following changes are included in 2014-2015 in the Water Pollution Control Plant category:

Adopted Allocation	2013-2014 Adopted	2014-2015 Adopted	Change
Treatment Plant Operating Fund	\$41,000,000	\$52,000,000	\$11,000,000

Budget Proposals Approved

- 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.

\$ 11,000,000

Subtotal Budget Proposals Approved	\$11,000,000
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Total Treatment Plant Operating Fund	\$11,000,000
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Adopted Allocation	2013-2014 Adopted	2014-2015 Adopted	Change
Treatment Plant Capital Fund	\$34,576,000	\$48,000,000	\$13,424,000

Budget Proposals Approved

- Transfer to the San José-Santa Clara Treatment Plant Capital Fund

This transfer supports capital projects in the Water Pollution Control Plant Capital Program. The 2014 -2015 increase reflects the continued effort to increase the annual capital rehabilitation investment within the facility and commence projects included in the Plant Master Plan. This effort is expected to require significantly greater annual expenditures during the next several years.

\$13,424,000

Subtotal Budget Proposals Approved	\$ 13,424,000
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Total Treatment Plant Operating Fund	\$13,424,000
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Total Water Pollution Control Plant	\$75,576,000	\$100,000,000	\$24,424,000
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