

# 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.*

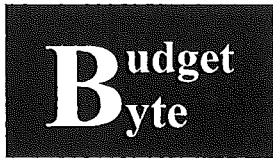
# Sewer Service and Use Charge Fund

## Budget Summary

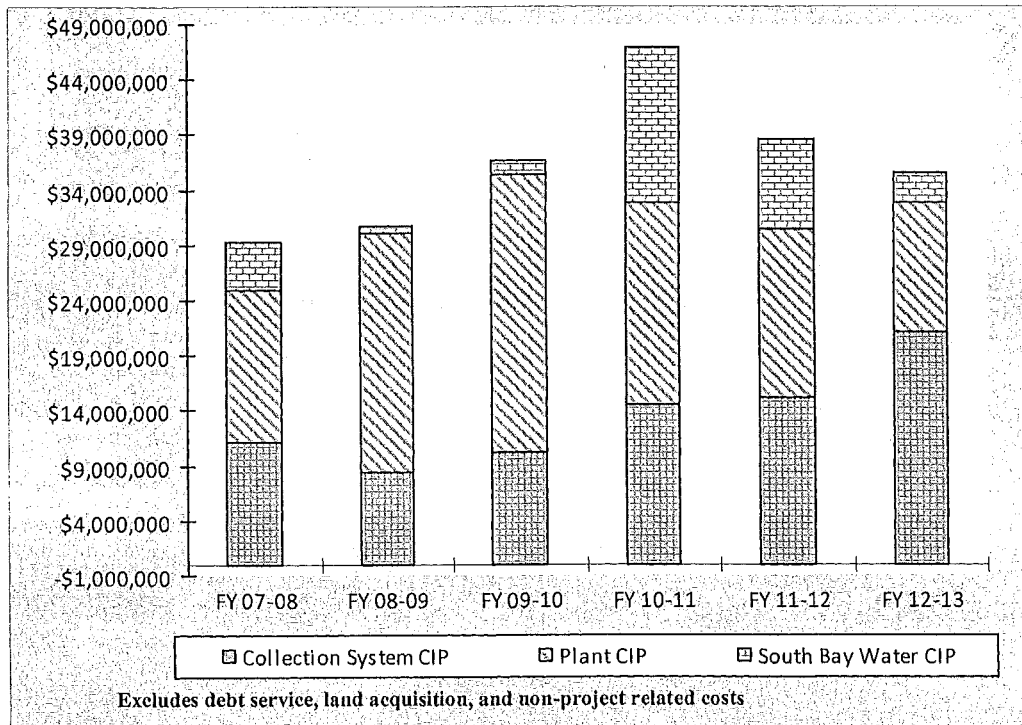
	2013-2014 Adopted	2014-2015 Proposed	Change
Sewer System Maintenance and Admin.	\$ 28,909,657	\$ 28,410,906	(1.7%)
Sanitary Sewer Rehabilitation	\$ 23,600,000	\$ 23,000,000	(2.5%)
Water Pollution Control Plant	\$ 75,576,000	\$ 100,000,000	32.3%

## Budget Highlights 2014-2015

- Ongoing funds are proposed in the 2014-2015 Operating Budget to provide a consistent funding source to replace maintenance vehicles as they age or become outdated.
- 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.
- Addition of two sewer pump crew positions to ensure proper maintenance of the growing pump station inventory.
- No Sewer Service and Use Charge rate increases are recommended for 2014-2015.



### 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

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**T**he 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 savings realized within the Fund over the past three years from vacancy savings which led to a healthy fund balance. With the expected ramp up of capital expenditures as described in the 2015-2019 Proposed 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 Proposed 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 Ending Fund Balance (\$34.8 million) in 2014-2015 in the Sewer Service and Use Charge Fund includes several reserves totaling \$27.2 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 Proposed 3	% Change (2 to 3)
<b>Dollars by Sources</b>				
Beginning Fund Balance	\$ 39,703,466	\$ 44,417,194	\$ 53,761,657	21.0%
Sewer Service and Use Charges	130,890,430	127,846,137	132,236,424	3.4%
Interest and Other	162,747	191,722	230,616	20.3%
<b>Total</b>	<b>\$ 170,756,643</b>	<b>\$ 172,455,053</b>	<b>\$ 186,228,697</b>	<b>8.0%</b>
<b>Dollars by Uses</b>				
Sewer System Maintenance and Administration	\$ 24,363,299	\$ 28,909,657	\$ 28,410,906	(1.7%)
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	1,100,000	0.0%
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	407,000	62.1%
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 Planning 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	5,220,869	102.9%
Ending Fund Balance Subtotal	49,081,344	44,369,396	34,817,791	(21.5%)
<b>Total</b>	<b>\$ 170,756,643</b>	<b>\$ 172,455,053</b>	<b>\$ 186,228,697</b>	<b>8.0%</b>

# 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 and Public Works. 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 Department of Transportation ongoing funding for sewer equipment replacement and ongoing funding for pump station maintenance staffing.

## Budget Category Summary

Sewer System Maintenance and Administrative Services	2012-2013 Actual 1	2013-2014 Adopted 2	2014-2015 Proposed 3	% Change (2 to 3)
Sewer System Maintenance	\$ 17,125,773	\$ 20,366,154	\$ 19,431,652	(4.6%)
Administrative Services	7,237,526	8,543,503	8,979,254	5.1%
<b>Total</b>	<b>\$ 24,363,299</b>	<b>\$ 28,909,657</b>	<b>\$ 28,410,906</b>	<b>(1.7%)</b>

## 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:

Proposed Allocation	2013-2014 Adopted	2014-2015 Proposed	Change
<b>Sewer System Maintenance</b>	<b>\$20,366,154</b>	<b>\$19,431,652</b>	<b>(\$934,502)</b>

#### 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 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)
<b>Subtotal Base Adjustments</b>		<b>(\$2,396,456)</b>

#### Budget Proposals Recommended

• DOT Non-Personal/ Equipment	Sanitary sewer fleet replacement	\$ 1,000,000
	Sewer lateral repair grant	\$ 300,000
	Sanitary sewer pump maintenance crew vehicles	\$ 108,000
• DOT Personal Services	Sanitary Sewer pump maintenance crew staffing	\$ 74,000
• IT Personal Services	Customer Contact Center staffing	(\$ 20,046)
<b>Subtotal Budget Proposals Recommended</b>		<b>\$1,461,954</b>

<b>Total Sewer System Maintenance</b>	<b>(\$934,502)</b>
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## Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

### Budget Category Summary

Proposed Allocation	2013-2014 Adopted	2014-2015 Proposed	Change
<b>Administrative Services</b>	<b>\$ 8,543,503</b>	<b>\$ 8,979,254</b>	<b>\$435,751</b>
<u>Base Adjustments</u>			
(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)
	<b>Subtotal Base Adjustments</b>		<b>\$414,816</b>
<u>Budget Proposals Recommended</u>			
• 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	Integrated Billing System Transition and Administrative Services Support and Watershed Protection Division staffing changes		(\$16,554)
• ESD Non-Personal/ Equipment	Sewer Service Conservation Program Elimination		(\$1,828)
	<b>Subtotal Budget Proposals Recommended</b>		<b>\$20,935</b>
<b>Total Sewer System Maintenance</b>			<b>\$435,751</b>
<b>Total Sewer System Maintenance and Administrative Services</b>	<b>\$28,909,657</b>	<b>\$28,410,906</b>	<b>(\$498,751)</b>

# 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 2040 San José 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.

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 Proposed 3	% Change (2 to 3)
Transfer to SSUC Capital Fund	\$ 25,000,000	\$ 23,600,000	\$ 23,000,000	(2.5%)
<b>Total</b>	<b>\$ 25,000,000</b>	<b>\$ 23,600,000</b>	<b>\$ 23,000,000</b>	<b>(2.5%)</b>



# 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:

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

Budget Proposals Recommended

<ul style="list-style-type: none"> <li>• Transfer to Sewer Service and Use Charge Capital Improvement Fund</li> </ul>	<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 Proposed 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><b>Subtotal Budget Proposals Recommended</b></p>		<p><b>(\$ 600,000)</b></p>

<b>Total Sanitary Sewer Construction and Rehabilitation</b>	\$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

**T**his 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 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

	2012-2013 Actual 1	2013-2014 Adopted 2	2014-2015 Proposed 3	% Change (2 to 3)
Water Pollution Control Plant				
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%
<b>Total</b>	<b>\$ 72,312,000</b>	<b>\$ 75,576,000</b>	<b>\$ 100,000,000</b>	<b>32.3%</b>

# 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:

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

Budget Proposals Recommended

- |   |   |                      |
|---|---|----------------------|
| <ul style="list-style-type: none"> <li>• Transfer to the San José-Santa Clara Treatment Plant Operating Fund</li> </ul> | <p>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.</p> | <p>\$ 11,000,000</p> |
|---|---|----------------------|

<b>Subtotal Budget Proposals Recommended</b>	<b>\$11,000,000</b>
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<b>Total Treatment Plant Operating Fund</b>	<b>\$11,000,000</b>
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Proposed Allocation	2013-2014 Adopted	2014-2015 Proposed	Change
Treatment Plant Capital Fund	\$34,576,000	\$48,000,000	\$13,424,000

Budget Proposals Recommended

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|---|--|---------------------|
| <ul style="list-style-type: none"> <li>• Transfer to the San José-Santa Clara Treatment Plant Capital Fund</li> </ul> | <p>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.</p> | <p>\$13,424,000</p> |
|---|--|---------------------|

<b>Subtotal Budget Proposals Recommended</b>	<b>\$ 13,424,000</b>
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<b>Total Treatment Plant Operating Fund</b>	<b>\$13,424,000</b>
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<b>Total Water Pollution Control Plant</b>	<b>\$75,576,000</b>	<b>\$100,000,000</b>	<b>\$24,424,000</b>
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