Sewer Service and Use Charge Fund

MISSION

To 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 rehabilitation;*
- *Sewage treatment at the Water Pollution Control Plant; and*
- *Water Pollution Control Plant Renovation.*

Budget Summary

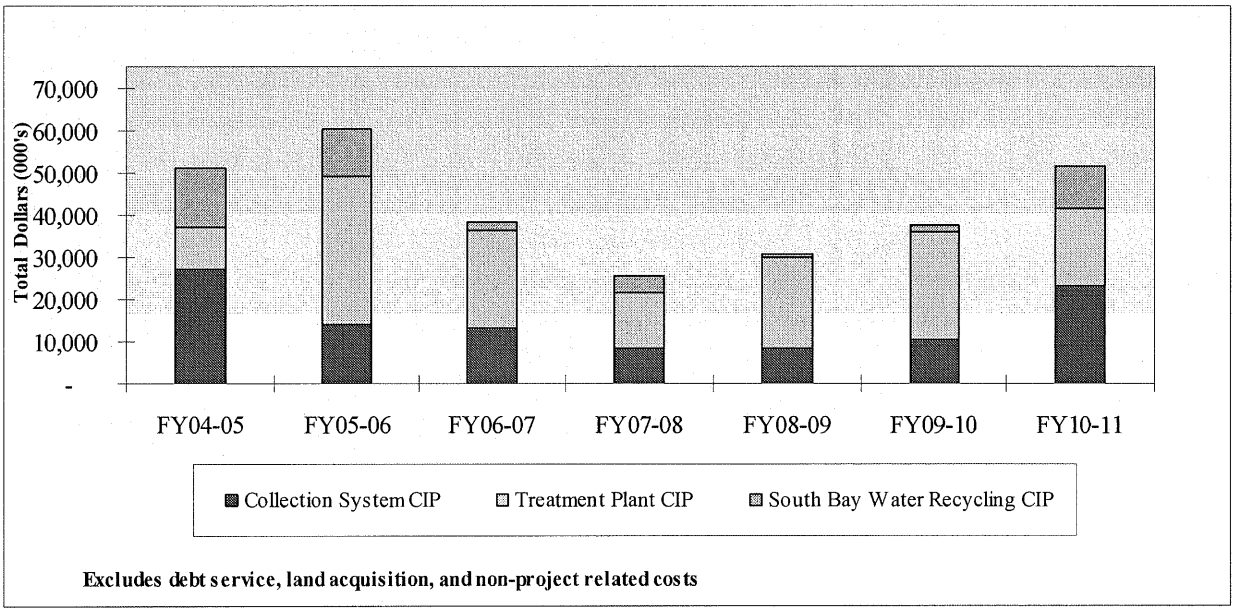
	2011-2012 Adopted	2012-2013 Adopted	Change
Sewer System Maintenance and Admin.	$ 25,764,100	$ 27,390,851	6.3%
Sanitary Sewer Rehabilitation	$ 31,000,000	$ 25,000,000	(19.4%)
Water Pollution Control Plant	$ 67,808,000	$ 72,312,000	6.6%

Budget Highlights 2012-2013

- Additional funds are included in the 2012-2013 Operating Budget for heavy equipment replacements for collection system maintenance groups as well as for the Sanitary Sewer Overflow Mitigation Program.
- Additional funds are included in the 2012-2013 Operating Budget for significant repair projects at the Water Pollution Control Plant (Treatment Plant), and for engineering and training resources. The costs for these additions are partially offset by reductions to the Environmental Services Department's Communications and Sustainability Programs.

Budget Byte

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



Excludes debt service, land acquisition, and non-project related costs

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. Rate increases in the Sewer Service and Use Charge fee were approved by the City Council at 6% in 2010-2011 and 3% in 2011-2012. These increases were necessary in order to provide sufficient funding to address changes to regulatory requirements, for deferred capital rehabilitation for the sewer system and the treatment facility, and to keep pace with the inflationary costs associated with the operations and maintenance of both systems. There was no rate increase in 2012-2013, leaving the average cost for a single family household 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 two years from reduced personnel costs and delays in the Plant Master Plan. As the preliminary studies and pre-construction work arising out of the Plant Master Plan are finalized, the capital expenditures will increase, as described in detail in the 2013-2017 Capital Improvement Program.

Capital rehabilitation efforts are critical to ensure the long-term viability of the treatment plant and quality of the collection system. These needs have been demonstrated by independent consultant studies during the past decade, which have noted that both systems have significant amounts of aging infrastructure. Most notably, over 50% of the Water Pollution Control Plant's primary assets exceed 30 years of service. The average age of the City's 15 sanitary sewer pump stations is 35 years, which exceeds the design life standards of the mechanical and electrical components. In response to the need for effective asset management, the sanitary sewer system and Treatment Plant have undergone comprehensive master planning efforts. The Preferred Alternative of the Plant Master Plan, adopted by the City Council on April 19, 2011, gives direction to the capital program and guides the development of a new financing strategy to implement anticipated projects. A similar plan is under development for the sanitary sewer system. The draft sanitary trunk sewer master plan report was completed in September 2011, and the program level Environmental Impact Report for recommended projects is anticipated to be completed by the end of 2012. Currently, increased resources will be directed toward the Sanitary Sewer Condition Assessment Program. 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, materials, and other items associated with the operations and maintenance of both systems, may necessitate rate increases.

Fund Overview

Included within the Ending Fund Balance of the Sewer Service and Use Charge Fund are the reserves for Rate Stabilization and Debt Service. The Reserve for Debt Service is intended to comply 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 purpose of the rate stabilization reserve is to offset any unexpected or unforeseen costs that would require rate increases over a multi-year period.

The Reserve for Operations and Maintenance, which is set to approximately two months of operating expenditures, is intended to provide for system needs in case of unforeseen circumstances.

As part of the 2012-2013 Budget, a Reserve for Capital Program has also been established. As described above, capital expenditures are expected to increase in coming years, as recommendations from master planning efforts are evaluated in greater detail. This reserve will provide for a portion of these needs.

Fund Summary

	2010-2011 Actual 1	2011-2012 Adopted 2	2012-2013 Adopted 3	% Change (2 to 3)
Dollars by Sources				
Beginning Fund Balance	$ 27,424,784	$ 32,591,977	$ 38,907,861	19.4%
Sewer Service and Use Charges	123,456,649	126,702,300	127,225,000	0.4%
Interest and Other	222,005	117,300	196,300	67.3%
Transfers and Loans	147,573	0	0	0.0%
Total	**$ 151,251,011**	**$ 159,411,577**	**$ 166,329,161**	**4.3%**
Dollars by Uses				
Sewer System Maintenance and Admin.	$ 23,968,386	$ 25,764,100	$ 27,390,851	6.3%
Sanitary Sewer Rehabilitation	15,575,000	31,000,000	25,000,000	(19.4%)
Water Pollution Control Plant	77,816,000	67,808,000	72,312,000	6.6%
Ending Fund Balance				
Rate Stabilization Reserve	2,000,000	5,000,000	2,000,000	(60.0%)
Reserve for Billing Transition	0	0	1,100,000	N/A
Debt Service Reserve	6,000,000	6,000,000	6,000,000	0.0%
Reserves for Encumbrances, Workers' Compensation Claims, Retirement Pre-Payment	2,137,527	1,875,920	2,137,527	13.9%
Reserve for Operations and Maintenance	3,994,434	4,179,931	4,288,977	2.6%
Reserve for Capital Program	0	0	24,000,000	N/A
Unrestricted	19,759,664	17,783,626	2,099,806	(88.2%)
Total	**$ 151,251,011**	**$ 159,411,577**	**$ 166,329,161**	**4.3%**

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 to the General Fund, fees charged by the County for collecting assessments, and audit costs.

Significant augmentations for 2012-2013 in Sewer System Maintenance include Department of Transportation funding for sewer equipment replacement, expansion of the root control and video inspection programs, the implementation of a first responder program to reduce sanitary sewer response times to 30 minutes or less, and sewer staffing support.

Budget Category Summary

Sewer System Maintenance and Administrative Services	2010-2011 Actual 1	2011-2012 Adopted 2	2012-2013 Adopted 3	% Change (2 to 3)
Sewer System Maintenance	$ 14,034,828	$ 17,371,037	$ 18,793,648	8.2%
Administrative Services	9,933,558	8,393,063	8,597,203	2.4%
Total	**$ 23,968,386**	**$ 25,764,100**	**$ 27,390,851**	**6.3%**

Budget Category Summary

The following changes are included in 2012-2013 in the Sewer System Maintenance and Administrative Services category:

Adopted Allocation		2011-2012 Adopted	2012-2013 Adopted	Change
Sewer System Maintenance		**$17,371,037**	**$18,793,648**	**$1,422,611**
Base Adjustments (One-time Prior Year Expenditures Deleted/Technical Adjustments to Costs of Ongoing Activities):				
• Department of Transportation (DOT) Non-Personal/ Equipment	Elimination of one-time funding for three maintenance utility vehicles			($530,000)
	Elimination of one-time combination cleaning truck funding			($500,000)
	Elimination of one-time pump station SCADA upgrade funding			($450,000)
	Elimination of one-time CMMS upgrade funding			($250,000)
	Elimination of one-time sewer cleaning equipment funding			($168,000)
• Various Departments Non Personal/ Equipment	Miscellaneous Non-Personal/Equipment changes			($22,803)
• Various Departments Personal Services	Salary/benefit changes, position reallocations, and other changes			($208,985)
• IDC Contract	Increase in indexed prices, especially diesel fuel and an increase in tons of debris from city facilities			$7,850
	Subtotal Base Adjustments			**($2,121,938)**
Budget Proposals Approved				
• IT Personal Services	Contact Center staffing reorganization			($27,639)
	Information Technology Department Management System			$3,757
• DOT Non-Personal/ Equipment	Sanitary Sewer Overflow Mitigation			$920,000
	Sanitary Sewer System Equipment Replacement			$595,000
	One dump truck and two maintenance body trucks			$500,000
	SCADA system			$410,000
	CMMS system			$250,000
• DOT Personal Services	Sanitary Sewer Overflow Mitigation			$778,492
• Public Works (PW) Non-Personal/ Equipment	Rebudget of Non-Personal/Equipment funds			$100,000
• PW Personal Services	Facilities and Fleet Information Systems staffing			$14,939
	Subtotal Budget Proposals Approved			**$3,544,549**
Subtotal Sewer System Maintenance				**$1,422,611**

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation		2011-2012 Adopted	2012-2013 Adopted	Change
Administrative Services		**$8,393,063**	**$8,597,203**	**$204,140**
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			($148,496)
• Various Departments Non-Personal/ Equipment	Miscellaneous Non-Personal/Equipment changes			($79,435)
• Transfer to the General Fund – Human Resources/Payroll System Upgrade	Elimination of a one-time transfer to the General Fund for a Human Resources Payroll System Upgrade			($59,273)
• Transfer to the City Hall Debt Service Fund	Decreased payment to the City Hall Debt Service Fund			($46,964)
• Planning Building and Code Enforcement (PBCE) Personal Services	Salary/benefit changes and position reallocations			($18,672)
• Overhead	Net change in overhead paid to the General Fund resulting from staffing changes, compensation, and overhead rate adjustments			$320,417
	Subtotal Base Adjustments			**($32,423)**
Budget Proposals Approved				
• Various Departments Personal Services	Position reallocations and other changes			($35,723)
• Overhead	Net change in overhead paid to the General Fund resulting from staffing changes and compensation adjustments			$272,286
	Subtotal Budget Proposals Approved			**$236,563**
Subtotal Administrative Services				**$204,140**
Total Sewer System Maintenance and Administrative Services		**$25,764,100**	**$27,390,851**	**$1,626,751**

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Rehabilitation

Budget Category Overview

The Sanitary Sewer Rehabilitation category consists of capital projects designed to rehabilitate the system and enhance sewer capacity to meet economic development. Rehabilitation projects of existing sewers are selected on the basis of pipe corrosion studies performed through video inspection, maintenance reports, infiltration analysis, and actual pipe failures. Capacity improvement projects are determined by a process that incorporates Census 2000 population, land use planning, 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.

Initial results from the sanitary sewer condition assessment efforts revealed at least 300,000 feet of neighborhood sewer mains, 1,000,000 feet of sewer mains near water ways, and 90,000 feet of sewer mains made of corrosive materials (such as cast iron) would need immediate attention.

A draft Sanitary Sewer Master Plan Report, completed in September 2011, identified city-wide trunk sewer system deficiencies for existing, near-term and long-term (i.e. General Plan 2040) land use scenarios, and recommended 93 capacity improvement projects totaling approximately $170 million. The near-term projects will be phased over a 20-year period.

In 2011-2012, approximately 11,600 feet of sanitary sewers were rehabilitated, 16,600 feet replaced, and 700,000 feet video inspected.

Funding from the Sewer Service and Use Charge Fund for the Sanitary Sewer Capital Program is programmed at $25 million per year for each of the five years of the 2013-2017 CIP, which reflects a $6 million annual decrease over levels projected during the 2012-2016 CIP process. However, as identified in the April 2, 2012, Transportation and Environmental Services Committee Status Report on Deferred Maintenance and Infrastructure Backlog, a transfer up to $36 million annually would be needed to stay current with the total rehabilitation and capacity needs.

Budget Category Summary

Sanitary Sewer Rehabilitation	2010-2011 Actual 1	2011-2012 Adopted 2	2012-2013 Adopted 3	% Change (2 to 3)
Transfer to Capital Fund	$ 15,575,000	$ 31,000,000	$ 25,000,000	(19.4%)
Total	**$ 15,575,000**	**$ 31,000,000**	**$ 25,000,000**	**(19.4%)**

Budget Category: Sanitary Sewer Rehabilitation

Budget Category Summary

The following changes are included in 2012-2013 for the Sanitary Sewer Rehabilitation category:

Adopted Allocation		2011-2012 Adopted	2012-2013 Adopted	Change
Sanitary Sewer Rehabilitation		**$31,000,000**	**$25,000,000**	**($6,000,000)**
Budget Proposals Approved				
• Transfer to Sewer Service and Use Charge Capital Improvement Fund	2011-2012 included a one-time increase to $31 million from the Sewer Service and Use Charge Fund for the Sanitary Sewer Capital Program, which has had steady funding of approximately $15 million per year for the last several years. For the period 2013-2017 the amount was adjusted to $25 million for each year for the next five years in recognition of increased collection system needs. Public Works is presently evaluating the needs of the Sanitary Sewer Capital Program through the development of a system assessment and master plan. 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 2012-2013 Capital Budget and 2013-2017 Capital Improvement Program.			($6,000,000)
	Subtotal Budget Proposals Approved			**($6,000,000)**
Total Sanitary Sewer Rehabilitation		**$ 31,000,000**	**$ 25,000,000**	**($6,000,000)**

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

Budget Category Summary

Water Pollution Control Plant	2010-2011 Actual 1	2011-2012 Adopted 2	2012-2013 Adopted 3	% Change (2 to 3)
Treatment Plant Operating Fund	$ 51,000,000	$ 40,000,000	$ 49,000,000	22.5%
Treatment Plant Capital Fund	26,816,000	27,808,000	23,312,000	(16.2%)
Total	**$ 77,816,000**	**$ 67,808,000**	**$ 72,312,000**	**6.6%**

The Treatment 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.

In addition to meeting regulatory requirements, the Treatment Plant continues its multi-year asset management and facility reliability efforts. Significant progress has been made toward implementing an asset management program. The Computerized Maintenance Management System (CMMS) database now tracks and maintains over 14,500 vertical and linear assets, 4,000 inventory items, and over 9,750 non-inventory items. Work continues to incorporate equipment into the CMMS system and prepare preventive maintenance procedures and schedules. Due to staffing vacancies, temporary staff has been instrumental in adding the primary sedimentation tanks and associated equipment to the CMMS system and incorporating standard maintenance procedures and associated parts. Work has now been initiated to do the same for South Bay Water Recycling Pump Station 8/11.

The Enhanced Preventative Maintenance Program continues to focus on facility reliability. The primary goal of the Program is to reduce equipment failures by maintaining specified routine maintenance standards. The Enhanced Maintenance Program also aids with the training of new employees and improves efficiencies in resources allocation through scheduling and documentation of information. However, the staffing vacancies has resulted in a backlog of needed repairs and slowed progress on the enhanced preventative

Budget Category Summary

maintenance program. Preventative maintenance activities are in place for almost 1,900 pieces of equipment that have been entered into the CMMS database within the last three years. Efforts continue to fold more equipment into the preventative maintenance schedules, with an anticipated completion of all documentation and database entry within the next three years. Upon completion of the documentation and data entry, staff efforts will shift to ongoing upkeep, quality control, and data analysis of the content of the system.

As the majority of the Plant's infrastructure reaches and exceeds 30 years of service, critical infrastructure such as electrical distribution systems, concrete structures, pumps, motors, piping, and valves need to be replaced or rehabilitated. On April 19, 2011, the City Council approved the Preferred Alternative of the Plant Master Plan, which identifies and plans for the future needs of the Treatment Plant. Environmental clearance is expected to be completed by early 2013. Key recommendations in the Plant Master Plan include projects focused on odor control, biosolids, and renewable energy. The total projected cost of all technical improvements indentified in the Plant Master Plan is $2.2 billion over the next 30 years (escalated at two percent annually).

The following changes are included in 2012-2013 in the Water Pollution Control Plant category:

Adopted Allocation	2011-2012 Adopted	2012-2013 Adopted	Change
Treatment Plant Operating Fund	**$40,000,000**	**$49,000,000**	**$9,000,000**
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. Lower anticipated revenue and higher operating expenses necessitated an increase by $9 million for 2012-2013.		$9,000,000
	Subtotal Budget Proposals Approved		**$9,000,000**

Budget Category: Water Pollution Control Plant

Budget Category Summary

Adopted Allocation		2011-2012 Adopted	2012-2013 Adopted	Change
Treatment Plant Capital Fund		**$27,808,000**	**$23,312,000**	**($4,496,000)**
Budget Proposals Approved				
• Transfer to the San José-Santa Clara Treatment Plant Capital Fund	The decrease reflects the reordering of the annual capital rehabilitation projects due to the delay in implementing the Plant Master Plan. This effort is expected to require significantly greater annual expenditures during the next several years. The specific elements of this program are described in the 2012-2013 Capital Budget and 2013-2017 Capital Improvement Program.			($4,496,000)
	Subtotal Budget Proposals Approved			**($4,496,000)**
Total Water Pollution Control Plant		**$67,808,000**	**$72,312,000**	**$4,504,000**