

Sewer Service and Use Charge Fund

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

Sewer Service and Use Charge Fund

Budget Summary

	2010-2011 Adopted	2011-2012 Adopted	Change
Sewer System Maintenance and Admin.	\$ 24,672,076	\$ 25,764,100	4.4%
Sanitary Sewer Rehabilitation	\$ 15,575,000	\$ 31,000,000	99.0%
Water Pollution Control Plant	\$ 77,816,000	\$ 67,808,000	(12.9%)

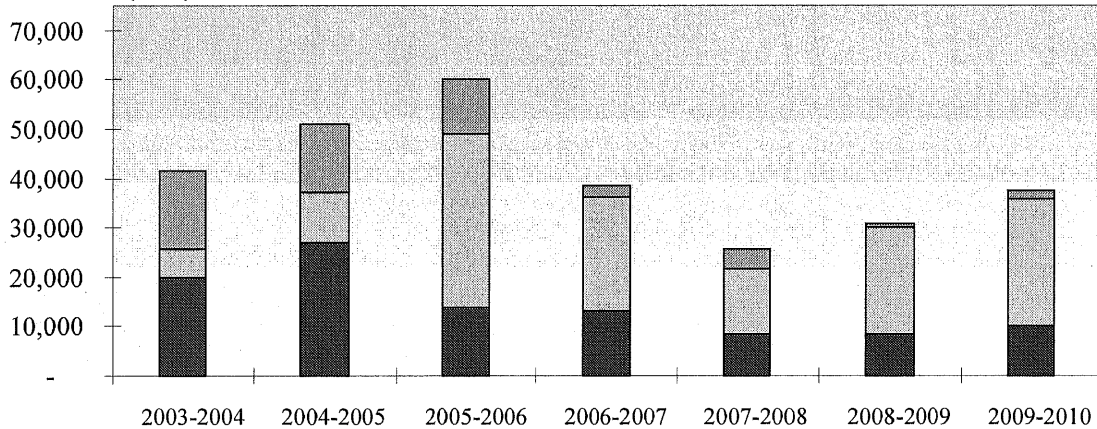
Budget Highlights 2011-2012

- ❑ A rate increase of 3% to the Sewer Service and Use Charge Fee was approved in order to adequately fund Water Pollution Control Plant rehabilitation and improvement, maintenance and rehabilitation of the sanitary sewer system, and the South Bay Water Recycling program.
- ❑ Additional funds are included in the 2011-2012 Adopted Operating Budget for heavy equipment acquisitions, succession planning, and air regulations compliance at the Water Pollution Control Plant. These costs are partially offset by reductions in the technical document management program.

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

Total Dollars (000s)



Collection System CIP
 Treatment Plant CIP
 South Bay Water Recycling CIP

Excludes debt service, land acquisition, and non-project related costs
 The spike in 2005-2006 represents the construction of the Treatment Plant's headworks

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 the fees paid through property tax-based assessments within the residential and commercial sectors. Recent rate increases in the Sewer Service and Use Charge were approved by the City Council at 15% in 2008-2009 and 6% 2009-2010. These increases were necessary in order to provide sufficient funding for deferred capital rehabilitation for the sewer system and the treatment facility; to address changes to regulatory requirements; and to keep pace with the inflationary costs associated with the operations and maintenance of both systems. In 2011-2012, a 3% rate increase to the Sewer Service and Use fee was approved. This will increase the cost for a single family household by \$0.97 per month, from \$32.86 to \$33.83 per month. The rate increase will generate additional revenue estimated at \$3.6 million in 2011-2012. Through notices mailed in spring 2010, rate payers were notified of annual rate increases of 6% or lower through 2012-2013. Due to savings in personnel costs and delays in the Plant Master Plan projects, it was possible to implement a lower rate increase for 2011-2012.

Independent consultant studies conducted in the past decade have noted that both systems had 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 needs for effective asset management, the sanitary sewer system and Treatment Plant are currently undergoing comprehensive master planning efforts. The Preferred Alternative of the Plant Master Plan was adopted by the City Council on April 19, 2011 and will guide the development of a new financing strategy to implement anticipated projects. A similar plan is expected for the sanitary sewer system during 2011-2012. Concurrently, increased resources will be directed toward the Sanitary Sewer Condition Assessments – Phase II project. Both the master planning and condition assessment programs will identify needs and priorities for the next 30 years and will be used to guide capital budget planning.

As these master planning efforts come to completion, larger annual capital programs are expected to be proposed for both systems in the coming years. As master plan recommendations are studied and possible technologies evaluated, the desired level of investment and funding for projects arising out of the master plans will need to be determined.

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. Increased expenditures on chemicals used in the treatment of sewage are driven by a need to reduce regulated emissions, which are a byproduct of the process. There is also a need for enhanced training programs as large numbers of personnel are expected to retire over the next five years, leaving the Plant with fewer experienced workers in certain trade groups.

Sewer Service and Use Charge Fund

Fund Overview

In 2011-2012, significant savings will be achieved through employee total compensation reductions across all departments within Personal Services in this Fund, as described elsewhere in this document. These savings are partially offset by the annual retirement contribution and unemployment contribution increases, also described in this document. As directed in the City Council approved Mayor's 2011-2012 June Budget Message, a final retirement contribution reconciliation for 2011-2012 will be recommended for City Council consideration as part of the 2010-2011 Annual Report. Any savings from reduced retirement costs will be recommended for allocation to the 2011-2012 Ending Fund Balance.

Included within the fund balance are the reserves for Rate Stabilization and Debt Service. The debt reserve 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 represent a source of funds if revenues were 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.

Fund Summary

	2009-2010 Actual 1	2010-2011 Adopted 2	2011-2012 Adopted 3	% Change (2 to 3)
Dollars by Sources				
Beginning Fund Balance	\$ 22,031,426	\$ 25,515,126	\$ 32,591,977	27.7%
Sewer Service and Use Charges	116,683,114	122,292,771	126,702,300	3.6%
Interest and Other	324,099	346,300	117,300	(66.1%)
Transfers and Loans	2,900,000	147,573	0	(100.0%)
Total	\$ 141,938,639	\$ 148,301,770	\$ 159,411,577	7.5%
Dollars by Uses				
Sewer System Maintenance and Admin.	\$ 23,470,670	\$ 24,672,076	\$ 25,764,100	4.4%
Sanitary Sewer Rehabilitation	17,225,000	15,575,000	31,000,000	99.0%
Water Pollution Control Plant	73,798,000	77,816,000	67,808,000	(12.9%)
Other*	20,185	0	0	0.0%
Ending Fund Balance				
Rate Stabilization Reserve	2,000,000	2,000,000	5,000,000	150.0%
Debt Service Reserve	6,000,000	6,000,000	6,000,000	0.0%
Reserves for Encumbrances, Workers' Compensation Claims, Retirement Pre-Payment	1,875,805	1,495,361	1,875,920	25.4%
Reserve for Operations and Maintenance	0	3,994,434	4,179,931	4.6%
Unrestricted	17,548,979	16,748,899	17,783,626	6.2%
Total	\$ 141,938,639	\$ 148,301,770	\$ 159,411,577	7.5%

* Transfer to the Vehicle Maintenance and Operations Fund

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Overview

This category is responsible 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. In addition to this, Information Technology (IT) Department costs are 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.

The most significant actions for 2011-2012 in both Sewer System Maintenance and Administrative Services are the Employee Total Compensation Reductions which will create savings in personal services across all

departments in this fund. These total compensation reductions are partially offset by increases to the annual retirement contribution and unemployment contribution for all departments. All three actions are described in detail elsewhere in this document.

Significant augmentations for 2011-2012 in Sewer System Maintenance include Department of Transportation funding for sewer equipment replacement, a pump station supervisory control and data acquisition (SCADA) system upgrade, a Computerized Maintenance Management System (CMMS) upgrade, and sewer staffing support. Also included is funding for pharmaceutical collections to be held as part of the Neighborhood Cleanup program. Significant Administrative Services actions include funding to evaluate alternatives to the Integrated Billing System and a payment for the Human Resources payroll system upgrade.

Budget Category Summary

Sewer System Maintenance and Administrative Services	2009-2010 Actual 1	2010-2011 Adopted 2	2011-2012 Adopted 3	% Change (2 to 3)
Sewer System Maintenance	\$ 15,381,295	\$ 16,116,046	\$ 17,371,037	7.8%
Administrative Services	8,089,375	8,556,030	8,393,063	(1.9%)
Total	\$ 23,470,670	\$ 24,672,076	\$ 25,764,100	4.4%

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

The following changes are included in 2011-2012 in the Sewer System Maintenance and Administrative Services category:

Adopted Allocation	2010-2011 Adopted	2011-2012 Adopted	Change
Sewer System Maintenance	\$16,116,046	\$17,371,037	\$1,254,991

Base Adjustments

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

<ul style="list-style-type: none"> • Department of Transportation (DOT) Non-Personal/ Equipment • Information Technology (IT) Personal Services • IT Non-Personal/Equipment • DOT Personal Services • Public Works (PW) Personal Services • PW Non-Personal/ Equipment • IDC Disposal Contract 	<ul style="list-style-type: none"> Elimination of one-time costs for sewer maintenance vector trucks, utility and maintenance trucks, sewer repair lines equipment, and Mabury Yard VoIP upgrade, partially offset by increased vehicle and maintenance costs Salary/benefit changes and position reallocations Integrated Billing System (IBS) hardware contract savings IBS funding realignment Hardware and software maintenance contractual increases Salary/benefit changes and position reallocations Salary/benefit changes and position reallocations Public Works Capital Support Costs Increase is a result of higher indexed prices, especially diesel fuel; and an increase in tons of debris from corporation yards processed, rather than landfilled. 	<ul style="list-style-type: none"> (\$1,133,255) (\$138,028) (\$25,000) \$18,683 \$3,100 \$332,251 \$28,247 \$21,599 \$8,480 (\$883,923)
Subtotal Base Adjustments		(\$883,923)

Budget Proposals Approved

<ul style="list-style-type: none"> • PW Personal Services • IT Personal Services 	<ul style="list-style-type: none"> Public Works Department Employee Total Compensation Reduction Public Works Department Annual Retirement Contribution Public Works Department Unemployment Contribution Information Technology Department Employee Total Compensation Reduction Information Technology Department Annual Retirement Contribution Information Technology Department Unemployment Contribution 	<ul style="list-style-type: none"> (\$142,687) \$70,151 \$14,497 (\$31,832) \$15,769 \$3,261
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Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation	2010-2011 Adopted	2011-2012 Adopted	Change
Sewer System Maintenance			
<u>Budget Proposals Approved</u> (Cont'd.)			
• DOT Non-Personal/Equipment	Sewer Equipment Replacement		\$1,130,000
	Pump Station SCADA Upgrade		\$450,000
	Computerized Maintenance Management System Upgrade		\$250,000
	Rebudget: Sewer Cleaning Equipment		\$168,000
	Fleet Staffing and Vehicle Pool Program		(\$19,000)
• DOT Personal Services	Department of Transportation Employee Total Compensation Reduction		(\$572,611)
	Department of Transportation Administrative Staffing		(\$24,188)
	Department of Transportation Annual Retirement Contribution		\$383,315
	Sewer Staffing Support		\$334,711
	Department of Transportation Unemployment Contribution		\$80,028
• Neighborhood Cleanups – Pharmaceutical Collections	Pharmaceutical Collections to be held in conjunction with Neighborhood Cleanups		\$29,500
	Subtotal Budget Proposals Approved		\$2,138,914
	Subtotal Sewer System Maintenance		\$1,254,991
Administrative Services	\$8,556,030	\$8,393,063	(\$162,967)
<u>Base Adjustments</u> (One-time Prior Year Expenditures Deleted/Technical Adjustments to Costs of Ongoing Activities):			
• Overhead	Decrease in overhead paid to the General Fund		(\$55,435)
• Transfer to the City Hall Debt Service Fund	Decreased payment to the City Hall Debt Service Fund		(\$29,299)
• Environmental Services (ESD) Personal Services	Salary/benefit changes and position reallocations		\$340,394
• City Attorney Personal Services	Salary/benefit changes and position reallocations		\$57,748
• Finance Personal Services	Salary/benefit changes and position reallocations		\$41,432
• Collection Costs	Technical adjustments to costs incurred for sewer fee collection		\$14,850

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation	2010-2011 Adopted	2011-2012 Adopted	Change
Administrative Services			
<u>Base Adjustments (Cont'd.)</u>			
• Planning, Building and Code Enforcement (PBCE) Personal Services	Adjustment to administrative services		\$9,863
• ESD Non-Personal/Equipment	Net impact of departmental support service realignments		\$8,691
• Human Resources Personal Services	Salary/benefit changes and position reallocations		\$3,317
• City Manager Personal Services	Salary/benefit changes and position reallocations		\$1,589
Subtotal Base Adjustments			\$393,150
<u>Budget Proposals Approved</u>			
• Overhead	Decrease in overhead paid to the General Fund		(\$305,261)
• Commercial Paper	Integrated Billing System (IBS) Commercial Paper repayment		(\$287,153)
• ESD Personal Services	Environmental Services Department Employee Total Compensation Reduction		(\$99,902)
	Municipal Environmental Compliance Staffing		(\$24,976)
	Environmental Services Department Administrative Staffing		(\$10,079)
	Environmental Services Department Annual Retirement Contribution		\$44,298
	Environmental Services Department Unemployment Contribution		\$9,164
• Finance Department Personal Services	Finance Department Employee Total Compensation Reduction		(\$50,579)
	Accounting Division Staffing		(\$1,862)
	Finance Department Annual Retirement Contribution		\$19,057
	Finance Department Unemployment Contribution		\$3,941
	Warehouse Service Delivery Staffing		\$1,288
• City Attorney Personal Services	City Attorney Employee Total Compensation Reduction		(\$29,995)
	Legal Support		(\$2,312)
	City Attorney Annual Retirement Contribution		\$20,081
	City Attorney Unemployment Contribution		\$4,151

Sewer Service and Use Charge Fund

Budget Category: Sewer System Maintenance and Administrative Services

Budget Category Summary

Adopted Allocation	2010-2011 Adopted	2011-2012 Adopted	Change
Administrative Services			
<u>Budget Proposals Approved</u> (Cont'd.)			
• PBCE Personal Services	Planning, Building and Code Enforcement Employee Total Compensation Reduction		(\$14,594)
	Planning, Building and Code Enforcement Annual Retirement Contribution		\$6,328
	Planning, Building and Code Enforcement Unemployment Contribution		\$1,309
• Human Resources Personal Services	Human Resources Department Employee Total Compensation Reduction		(\$2,349)
	Human Resources Department Annual Retirement Contribution		\$1,053
	Human Resources Department Unemployment Contribution		\$218
• City Manager's Office Personal Services	Office of the City Manager Employee Total Compensation Reduction		(\$1,557)
	Administrative Support Staffing Consolidation		(\$186)
	Office of the City Manager Annual Retirement Contribution		\$694
	Office of the City Manager Unemployment Contribution		\$182
• ESD Non-Personal/Equipment	Integrated Billing System Transition Support		\$70,000
	Environmental Services Department Staffing Relocation		\$8,560
• General Fund – HR/Payroll System Upgrade	Payment for the Human Resources payroll system upgrade		\$59,273
• Transfer – City Hall Debt Service Fund	Increased payment to the City Hall Debt Service Fund		\$25,091
	Subtotal Budget Proposals Approved		(\$556,117)
	Subtotal Administrative Services		(\$162,967)
Total Sewer System Maintenance and Administrative Services	\$24,672,076	\$25,764,100	\$1,092,024

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. Higher priority is given to larger lines and to those with extensive, severe deterioration. 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.

The vast majority of the sanitary sewer collection system (80%) consists of small (6-inch and 8-inch diameter) sewer mains that serve residential neighborhoods. These small diameter neighborhood sewer systems are typically as old as the neighborhoods they serve and are the most common locations for blockage and sewer backups.

Initial results from the pilot Sanitary Sewer Condition Assessment project revealed at least 500,000 feet of neighborhood sewer mains need immediate attention.

Through the end of 2010-2011, an estimated 22,700 feet of sanitary sewers are anticipated to be rehabilitated, and 7,200 feet of sewers will be replaced. In addition to this, pump stations (PS) and/or force mains (FM), including the Lamplighter FM, Spreckles FM and Montague PS were evaluated. The new San José Sanitary Sewer Master Plan for the north, south, and central areas was completed in June 2004 and the Sanitary Sewer Master Plan for the east and west areas will be completed in 2011. Once the master plan is completed, it will help identify sewer capacity deficiencies in the existing system, and project additional capacities required to meet future demands.

Budget Category Summary

	2009-2010 Actual 1	2010-2011 Adopted 2	2011-2012 Adopted 3	% Change (2 to 3)
Sanitary Sewer Rehabilitation				
Transfer to Capital Fund	\$ 17,225,000	\$ 15,575,000	\$ 31,000,000	99.0%
Total	\$ 17,225,000	\$ 15,575,000	\$ 31,000,000	99.0%

Sewer Service and Use Charge Fund

Budget Category: Sanitary Sewer Rehabilitation

Budget Category Summary

The following changes are included in 2011-2012 for the Sanitary Sewer Rehabilitation category:

<u>Adopted Allocation</u>	<u>2010-2011 Adopted</u>	<u>2011-2012 Adopted</u>	<u>Change</u>
Sanitary Sewer Rehabilitation	\$15,575,000	\$31,000,000	\$15,425,000
<u>Budget Proposals Approved</u>			
<ul style="list-style-type: none">Transfer to Sewer Service and Use Charge Capital Improvement Fund	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 2011-2012 Adopted Capital Budget and 2012-2016 Adopted Capital Improvement Program.		\$15,425,000
	Subtotal Budget Proposals Approved		\$15,425,000
Total Sanitary Sewer Rehabilitation	\$ 15,575,000	\$ 31,000,000	\$ 15,425,000

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 Project. The capital costs in this category provide for planning, design, and construction of new wastewater treatment facilities at the Plant.

Budget Category Summary

Water Pollution Control Plant	2009-2010 Actual 1	2010-2011 Adopted 2	2011-2012 Adopted 3	% Change (2 to 3)
Treatment Plant Operating Fund	\$ 45,051,000	\$ 51,000,000	\$ 40,000,000	(21.6%)
Treatment Plant Capital Fund	28,747,000	26,816,000	27,808,000	3.7%
Total	\$ 73,798,000	\$ 77,816,000	\$ 67,808,000	(12.9%)

Transfers to the Treatment Plant Operating Fund and the Treatment Plant Capital Fund support the operating, capital, and debt service costs of the San José/Santa Clara Water Pollution Control 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. Calendar year 2010 marked the ninth year in a row that the Plant has had no violations of its NPDES permit.

In addition to meeting regulatory requirements, the Plant continues its multi-year asset management, facility reliability, and cost efficiency efforts. Significant progress has

been made toward implementing an Asset Management program. Major accomplishments toward this goal include a new Computerized Maintenance Management System (CMMS), which went live in July 2009. Asset management is an important part of the Plant's long-term reliability plan, and is essential for the facility to manage over \$1 billion worth of assets.

Facility reliability continues to be a focus during the fourth year of a five year Enhanced Preventative Maintenance Program. The primary goal of the Program is to reduce equipment failures by maintaining the specified routine maintenance standards. Adherence to these standards can significantly lower costs by minimizing unplanned maintenance activities.

Energy efficiency continues to be an important part of controlling operations and maintenance costs at the Plant. Continued investment in

Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Summary

energy saving projects such as pulsed aeration, more efficient pumps, variable-frequency drives, and demand-side management of energy are being explored and implemented.

During the past fifty years, nearly \$1 billion in today's dollars has been invested to transform the Plant from a basic primary level treatment facility to a state-of-the-art advanced treatment plant. As the majority of the Plant's infrastructure reaches and exceeds thirty years of service, critical infrastructure such as electrical distribution systems, concrete structures, pumps, motors, piping and valves need to be replaced or rehabilitated. In 2007-2008, staff began development of a 30-year master plan to identify and plan for future

needs of the treatment plant. The master planning process has resulted in a Recommended Preferred Alternative consisting of a Technical Alternative and a Land Use Alternative. The Recommended Preferred Alternative was approved by the City Council on April 19, 2011, and environmental clearance is expected to be completed by early 2013.

The Technical Alternative includes long-term capital improvement projects focused on odor control, biosolids, and renewable energy. The total projected cost of all technical improvements identified in the Technical Alternative is \$2.2 billion over the next 30 years (escalated at two percent annually).

The following changes are included in 2011-2012 in the Water Pollution Control Category:

Adopted Allocation	2010-2011 Adopted	2011-2012 Adopted	Change
Treatment Plant Operating Fund	\$51,000,000	\$40,000,000	(\$11,000,000)
<u>Budget Proposals Approved</u>			
<ul style="list-style-type: none"> • Transfer to the San José-Santa Clara Treatment Plant Operating Fund 	This transfer pays 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)

Sewer Service and Use Charge Fund

Budget Category: Water Pollution Control Plant

Budget Category Summary

Adopted Allocation	Adopted	2010-2011 Adopted	2011-2012 Change
Treatment Plant Capital Fund	\$26,816,000	\$27,808,000	\$992,000
<u>Budget Proposals Approved</u>			
<ul style="list-style-type: none"> • Transfer to the San José-Santa Clara Treatment Plant Capital Fund 	<p>The increase reflects the continued effort to increase the annual capital rehabilitation investment and commence with studies and preliminary projects leading to the implementation of 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 2011-2012 Adopted Capital Budget and 2012-2016 Adopted Capital Improvement Program.</p>		\$992,000
Subtotal Budget Proposals Approved			\$992,000
Total Water Pollution Control Plant	\$77,816,000	\$67,808,000	(\$10,008,000)