

Meeting Date: 5/10/2016

Report Type: Staff/Discussion

Report ID: 2016-00477

Title: FY2016/17 Proposed Budget for the Department of Utilities

Location: Citywide

Recommendation: Receive and consider for final budget adoption.

Contact: Bill Busath, Director, (916) 808-1434; Susan Goodison, Business Services Manager, (916) 808-8995; Daniel Choe, Supervising Financial Analyst, (916) 808-5988, Department of Utilities

Presenter: None

Department: Department Of Utilities

Division: Fiscal Operations

Dept ID: 14001611

Attachments:

1-Description/Analysis

2-DOU Proposed Budget Exhibit 1

City Attorney Review

Approved as to Form

Joe Robinson

4/29/2016 12:01:14 PM

Approvals/Acknowledgements

Department Director or Designee: Bill Busath - 4/25/2016 5:07:53 PM

Description/Analysis

Issue: The FY2016/17 Proposed Budget as presented by the City Manager on April 25, 2016 was developed in advance of Council's approval of four-year rate increases in the Water and Wastewater Funds. The Proposed Budget includes the addition of 11.0 FTE positions to support drinking water quality assurance reporting and testing, and regulatory and safety compliance measures; implement water distribution system flushing to ensure water quality; alleviate operator staffing shortages at both water treatment plants; accelerate improvement of security systems at water treatment and distribution facilities; and enhance GIS capabilities to facilitate water quality and other data availability and accuracy.

On March 29, 2016, the City Council approved four-year rate increases for water (10% per year) and wastewater (9% per year) to support continued investment in the long-term strategy approved by the City Council in 2012, that focused on:

- Investment in the City's water and wastewater capital and regulatory programs
- Maintaining reliable and high quality service
- Moving the City toward industry best practices for infrastructure replacement and maintenance
- Complying with legislative and regulatory mandates and regulations
- Ensuring environmental compliance

When the rate increases were approved, Council also directed staff to expand the scope of the Utility Rate Assistance Program (URAP). The Department is currently updating the URAP to expand the scope. The increase in the FY2016/17 General Fund Tax transfers for water (\$1.0 million) and wastewater (\$0.3 million) will be appropriated to the URAP MYOP to support the URAP expansion.

Staff recommends approval of adjustments to the Proposed Budget to increase revenues and expenditures based on the approved rate increases. A summary of the revenue and expenditure adjustments to the Proposed Budget are included as Exhibit 1. Detailed information on changes to the Capital Improvement Program (CIP) budget will be provided in the May 17, 2016 budget hearing.

Policy Considerations: This report is consistent with Council's direction and adopted budget principles to use one-time resources strategically, maintain a fiscally sustainable balanced budget and keep the Council informed on the fiscal condition of the City.

Economic Impacts: None

Environmental Considerations:

California Environmental Quality Act (CEQA): The ongoing operations funded under the Budget are not subject to CEQA review. CEQA review for any project included in this report has been or will be conducted in conjunction with planning, design, and approval of each specific project as appropriate (CEQA Guidelines Section 15378 (b) (4)).

Sustainability: Not applicable.

Commission/Committee Action: Not Applicable

Rationale for Recommendation: The actions recommended in this report address the adjustments necessary to implement the City's financial plan for FY2016/17.

Financial Considerations: Staff is recommending revenue and expenditure adjustments in the Water and Wastewater Funds as explained below and in Attachment 1.

Water (Fund 6005)

Revenues from the approved 10% rate increase, projected at \$9.1 million, will be used primarily to support infrastructure projects. The majority of the expenditure increase will be used for the Residential Water Meter Program CIP (\$5 million increase) and operating expenditures (\$1.6 million) including the addition of a Customer Service Specialist to support the Accelerated Meter Program. The Department is working with the City Treasurer's Office to determine debt capacity to further accelerate the water meter program.

This budget includes a request to combine two 0.5 FTE Customer Service Representatives into 1.0 FTE Customer Service Representative position. This has a net zero effect on the proposed budget.

Wastewater (Fund 6006)

Revenues from the approved 9% rate, projected at \$2.7 million, will be used primarily to support infrastructure projects. The majority of the expenditure increase will be used for the Wastewater Combined Sewer System Program CIP (\$5.2 million increase) and operating expenditures (\$0.6 million) including the addition of a Senior Application Developer. The addition of this position will help the Department with project management oversight of the new customer information and billing administration system and other CIPs.

Storm Drainage (Fund 6011)

Since the passage of Proposition 218 in 1996, which requires that drainage rate increases be approved by a vote of the property owners, drainage rates have not increased and the storm drainage system has seen a significant drop in its CIP. Rising operation, maintenance, and regulatory compliance costs now consume almost all of the storm drainage fund revenues. To begin the process of addressing the backlog, the City is working closely with the community, the Utility Rate Advisory Commission, and the City Council to develop a Storm Drainage Infrastructure Program and Financing Plan.

Local Business Enterprise (LBE): No goods or services are being purchased under this report.

Attachment 1

**Water Fund (Fund 6005)
Revenue and Expenditure Five-Year Forecast**

	FY17					
	FY17 Proposed*	Amended Proposed	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
BEGINNING FUND BALANCE	33,737	33,737	39,009	46,100	53,860	72,445
Revenues						
Charges, Fees, and/or Services	96,339	105,458	109,373	118,718	129,323	129,776
Interest	400	400	431	506	591	595
Other (Intergovernmental)	185	185	185	185	185	185
Total Revenues	96,924	106,043	109,989	119,409	130,099	130,556
Expenditures						
Operating - Employee Services	36,389	36,453	37,911	39,428	41,005	42,645
Operating - Other	25,567	26,743	28,620	30,646	32,839	33,824
Debt Service	26,450	26,450	26,450	26,450	26,450	26,450
Multi-Year Operating Projects	2,736	3,078	3,141	3,126	3,220	3,723
Capital Improvements	3,047	8,047	6,776	12,000	8,000	16,646
Total Expenditures	94,189	100,771	102,898	111,650	111,513	123,288
SURPLUS/(DEFICIT)	2,735	5,272	7,091	7,760	18,585	7,268
ENDING FUND BALANCE	\$ 36,472	\$ 39,009	\$ 46,100	\$ 53,860	\$ 72,445	\$ 79,713

*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

**Wastewater Fund (Fund 6006)
Revenue and Expenditure Five-Year Forecast**

	FY17					
	FY17 Proposed*	Amended Proposed	FY18 Projection	FY19 Projection	FY20 Projection	FY21 Projection
BEGINNING FUND BALANCE	7,957	7,957	4,116	11,141	17,374	20,408
Revenues						
Charges, Fees, and/or Services ¹	30,490	33,230	37,131	40,388	43,937	44,091
Interest	392	392	423	449	478	479
Other (Intergovernmental)	1,013	1,013	1,043	1,074	1,106	1,139
Total Revenues	31,895	34,635	38,597	41,911	45,521	45,709
Expenditures						
Operating - Employee Services	11,322	11,441	11,899	12,375	12,870	13,384
Operating - Other	12,558	12,864	13,578	14,344	15,164	15,619
Debt Service	3,033	3,033	2,882	2,841	2,842	2,753
Multi-Year Operating Projects	1,919	1,919	2,214	2,180	4,235	3,782
Capital Improvements	4,007	9,219	1,000	3,938	7,376	10,000
Total Expenditures	32,839	38,476	31,573	35,677	42,487	45,539
SURPLUS/(DEFICIT)	(944)	(3,841)	7,024	6,234	3,034	170
ENDING FUND BALANCE	\$ 7,013	\$ 4,116	\$ 11,141	\$ 17,374	\$ 20,408	\$ 20,578

*FY17 beginning fund balance has been adjusted based on audited FY2014/15 year-end results.

SECTION – 21
Utilities

Utilities

The Department of Utilities provides dependable, high quality water, storm drainage, and wastewater services in a fiscally and environmentally sustainable manner.

The **Department of Utilities (DOU)** provides and maintains water, wastewater, and storm drainage services and facilities for its customers, city ratepayers. These services are crucial to safeguard the health and safety of the public, support economic development, protect the environment, and improve the quality of life in our city. DOU works in conjunction with other City departments as well as regional, state, and federal agencies in the maintenance, development, and rehabilitation of water resources infrastructure.

DOU is organized into three operating divisions: Operations and Maintenance, Engineering and Water Resources, and Business and Integrated Planning. This organizational structure allows for increased collaboration across business functions and enables the DOU to focus efforts on customer priorities. Additionally, there are three sections under the Office of the Director reflecting the commitment to local and regional policy involvement, education and stakeholder outreach, and planning for current and future generations by protecting, preserving and enhancing water resources, the environment, and the community.

Detailed five-year forecasts for each of the utility enterprise funds are included in the Forecast section of this document.

INNOVATION, INFRASTRUCTURE, AND INCLUSION

Below are recent accomplishments and current initiatives that meet the requisite characteristics of a 3.0 city: innovation, infrastructure improvement, and/or inclusion.

INNOVATION

- Continue to replace vehicles with alternative fuel, or hybrid vehicles, where feasible.
- Accelerate utilization of GIS tools to increase efficiencies in operations and maintenance.
- Invest in equipment and training for emergency preparation.
- Obtained a Water Energy Grant, for the maximum amount of \$2.5 million, to continue work on the District Metered Area Pilot project, in four district-metered areas within disadvantaged communities. Provides the Department with a tool to assess water savings, determining which parts of the distribution system are experiencing the highest level of leakage,

and determining areas that have limited leakage so that resources can be targeted to the greatest effect. Selected areas will provide the greatest benefit to low-income and disadvantaged residents who have limited resources to address service leaks.

INFRASTRUCTURE

- Accelerate installation of residential water meters so all residents can track water conservation and strive to achieve conservation goals.
- Continue system capacity improvements in the Combined Sewer System (CSS).
- Upgrade critical Information Technology functions including the Customer Information System (CIS) that controls the DOU billing functions.

INCLUSION

- Hold focus groups and neighborhood meetings to discuss infrastructure improvements in neighborhoods and provide outreach to the community on rate adjustments. The focus of this outreach in FY2016/17 will be the storm drainage system.
- Continue to partner with local high schools, community colleges, and CSUS to provide opportunities for student internships, especially for disadvantaged youth.

BUDGET CHANGES

Program	Description	Fund	Revenue/ Offset Adjustment	Expenditure Change	FTE Change
Engineering & Water Resources	Add an Instrument Technician II to support security infrastructure and water treatment plant systems and an Associate Electrical Engineer to administer regulatory reporting for facilities, offset by reductions in services and supplies.	Water	199,733	199,733	2.00
Information Technology	Add a GIS Specialist III to support long-range IT master planning projects, offset by reductions in services and supplies.	Wastewater	100,986	100,986	1.00
Operations	Add 4.0 FTE positions (1.0 Senior Plant Operator, 1.0 Plant Operator, and 2.0 Senior Maintenance Workers) and increase services and supplies funding for water filtration monitoring at the water treatment plants.	Water	-	421,154	4.00
Operations	Add 2.0 Utilities Operation & Maintenance Service Workers to support regulatory and safety compliance measures.	Water	-	158,612	2.00
Supervisory Control and Data Acquisition	Add an IT Supervisor to provide oversight and accountability, offset by reductions to services and supplies.	Water	149,446	149,446	1.00
Water Quality	Add an Administrative Technician for water assurance reporting and testing.	Water	-	78,915	1.00
Total Change \$			450,165	\$ 1,108,846	11.00

Department Budget Summary

Utilities Budget Summary	FY2013/14 Actuals	FY2014/15 Actuals	FY2015/16 Approved	FY2015/16 Amended	FY2016/17 Proposed	Change More/(Less) Proposed/Amended
Employee Services	49,027,870	52,719,356	57,802,633	57,802,633	60,483,526	2,680,893
Other Services and Supplies	26,327,856	28,132,862	42,141,074	34,959,116	39,827,312	4,868,196
City Property	1,325,087	997,391	4,792,446	1,736,446	3,400,372	1,663,926
Transfers	(176,933)	(2,066,333)	-	-	-	-
Labor and Supply Offset	2,139,388	787,354	109,925	109,925	66,440	(43,485)
Operating Transfers	17,339,792	18,961,076	18,108,794	18,108,794	18,169,074	60,280
Total	95,983,061	99,531,706	122,954,872	112,716,914	121,946,724	9,229,810

Funding Summary by Fund/Special District	FY2013/14 Actuals	FY2014/15 Actuals	FY2015/16 Approved	FY2015/16 Amended	FY2016/17 Proposed	Change More/(Less) Proposed/Amended
Community Center Fund	-	4,983	4,983	4,983	4,983	-
Fleet Management Fund	203,375	180,374	147,729	147,729	147,729	-
General Fund	8,138	74,946	122,410	122,410	122,410	-
Golf Fund	12,760	4,940	8,550	8,550	8,550	-
Landscaping and Lighting	59,169	40,880	80,000	80,000	40,000	(40,000)
N Natomas Lands CFD 3	437,159	185,121	319,733	319,733	300,000	(19,733)
Neighborhood Water Quality Dist	1,241	211	5,000	5,000	3,000	(2,000)
Northside Subdiv Maint Dist	-	-	10,000	10,000	8,000	(2,000)
Parking Fund	198	1,359	1,359	1,359	1,359	-
Recycling and Solid Waste	1,882,393	1,823,235	1,812,212	1,812,212	1,891,860	79,648
Storm Drainage Fund	24,781,477	27,973,640	31,998,746	29,785,084	31,435,567	1,650,483
Storm Drainage Grant Reimbursement	-	-	1,112,000	-	-	-
Township 9 CFD No. 2012-06	-	-	1,000	1,000	-	(1,000)
Wastewater Fund	19,644,903	18,977,075	26,009,646	22,520,716	25,120,515	2,599,799
Water Fund	48,939,388	50,246,895	61,169,700	57,882,532	62,842,751	4,960,219
Water Grant Reimbursement	-	-	136,198	-	-	-
Willowcreek Assmnt Md	12,859	18,046	15,606	15,606	20,000	4,394
Total	95,983,061	99,531,706	122,954,872	112,716,914	121,946,724	9,229,810

Note: The significant budget increases in property, and services and supplies are the result of fleet and multi-year operating project (MYOP) funding that are moved from the operating budgets to the MYOPs after adoption of the budget.

Division Budget Summary

Utilities	FY2013/14	FY2014/15	FY2015/16	FY2015/16	FY2016/17	Change
Division Budgets	Actuals	Actuals	Approved	Amended	Proposed	More/(Less) Proposed/Amended
Business & Integrated Planning Division	6,573,000	7,159,919	8,277,566	8,277,566	7,990,033	(287,533)
Engineering & Water Services Division	11,101,809	11,713,282	14,176,306	14,134,506	15,178,977	1,044,471
Office of the Director - DOU	28,041,635	29,519,314	43,185,100	33,103,942	39,296,673	6,192,731
Operations & Maintenance Division	50,266,617	51,139,192	57,315,900	57,200,900	59,481,041	2,280,141
Total	95,983,061	99,531,706	122,954,872	112,716,914	121,946,724	9,229,810

Staffing Levels

Utilities	FY2013/14	FY2014/15	FY2015/16	FY2015/16	FY2016/17	Change
Division Budgets	Actuals	Actuals	Approved	Amended	Proposed	More/(Less) Proposed/Amended
Business & Integrated Planning Division	66.00	72.18	71.18	71.18	63.18	(8.00)
Engineering & Water Services Division	115.50	115.72	125.72	125.72	135.72	10.00
Office of the Director - DOU	7.00	9.00	9.00	9.00	9.00	-
Operations & Maintenance Division	328.00	327.50	332.00	332.00	340.00	8.00
Total	516.50	524.40	537.90	537.90	547.90	10.00

PERFORMANCE MEASURES

Engineering & Water Services Division

Key Measure	FY14 Actuals	FY15 Actuals	FY16 Target	FY17 ¹ Goal
# water meters installed/year	2,781	6,900	17,200	1,100

¹ Implementation of the accelerated meter program is contingent upon proposed rate adjustments to be approved by Council. Upon rate adoption, the FY17 goal will be 25,000.

The number of water meters installed is monitored to gauge the City’s progress toward meeting the State mandate that all water utility customers have meters installed no later than 2025. In February 2015 Council approved an acceleration of the City’s meter program, which is expected to result in the City meeting the State mandate by December 2020¹. Water meter installation supports the City’s Sustainability Master Plan by improving water conservation awareness through metered billing with a monthly statement of water usage to customers, enhances leak detection and furthers the City’s progress toward implementing the CA Urban Water Conservation Council Best Management Practices.

Office of the Director Division

Key Measure	FY14 ¹ Actuals	FY15 Actuals	FY16 ² Target	FY17 Goal
% water conservation achieved (year-over-year)	6%	22%	26%	25%

¹ For drought and state reporting purposes the City measures conservation achieved on a calendar year basis. For calendar year 2014, 18.8% water conservation when measured against calendar year 2013.

² From March 2015 to February 2016, the City was mandated to achieve 28% water conservation. The City achieved over 28% water conservation for the same period.

The percentage of water conservation achieved citywide is not only a required performance measure to comply with State mandates for water conservation, but also a key performance indicator to measure effectiveness of the Department’s water conservation outreach and enforcement efforts. The 26 percent target² for FY16 is based not only on continuing efforts in relation to the drought, but also on the Department’s goal to comply with the Governor’s Executive Order of 2016.

Operations & Maintenance Division

Key Measure	FY14 Actuals	FY15 Actuals	FY16 Target	FY17 ¹ Goal
# of sanitary sewer (wastewater) overflows	3.71	2.76	2.53	2.53
	per 100 miles	per 100 miles	per 100 miles	per 100 miles

¹ The terms of the consent decree described below require the City to reduce its SSO’s to 5 per 100 miles of pipe by FY17.

The number of sanitary sewer overflows (SSOs) is measured to ensure regulatory compliance and to gauge the effectiveness of operational activities and capital improvements that have been implemented to achieve this compliance. The primary permit with respect to the separated system is the waste discharge requirements permit issued by the state Water Resources Control Board. The goal of this permit is to minimize SSOs from the separated system. Additionally, the City must also comply with the requirements of a consent decree entered into on January 9, 2012, in which the City

agreed to meet specified SSO reduction standards by implementing specific operational activities and capital improvements through a multi-year funding plan. The consent decree requires that the City reduce its SSOs to five per 100 miles of pipe by FY2016/17, which was achieved ahead of schedule.

	FY2015/16 Amended	FY2016/17 Proposed	Change
Utilities			
Account Clerk II	1.00	1.00	-
Accounting Technician	6.00	6.00	-
Administrative Analyst	6.00	6.00	-
Administrative Assistant	1.00	1.00	-
Administrative Technician*	4.00	6.00	2.00
Assistant Civil Engineer	5.00	5.00	-
Assistant Water Cross Connection Control Specialist	2.00	2.00	-
Associate Civil Engineer	11.00	11.00	-
Associate Electrical Engineer	1.00	2.00	1.00
Blacksmith Welder	1.00	1.00	-
Business Services Manager	1.00	1.00	-
Claims Collector	1.00	1.00	-
Construction Inspector II	1.00	1.00	-
Customer Service Representative	24.00	24.00	-
Customer Service Specialist	6.00	6.00	-
Customer Service Supervisor	4.00	4.00	-
Data Entry Technician	1.00	1.00	-
Department Systems Specialist I	2.00	2.00	-
Department Systems Specialist II	1.00	1.00	-
Development Services Technician I	1.00	1.00	-
Development Services Technician II	2.00	2.00	-
Director of Utilities	1.00	1.00	-
Electrician	14.00	14.00	-
Electrician Supervisor	2.00	2.00	-
Engineering Manager	1.00	1.00	-
Engineering Technician III	4.00	4.00	-
Generator Technician	3.00	3.00	-
GIS Specialist II	3.00	3.00	-
GIS Specialist III	-	1.00	1.00
Instrument Technician II	9.00	10.00	1.00
Instrumentation Supervisor	1.00	1.00	-
IT Supervisor	4.00	5.00	1.00
IT Support Specialist II	2.00	2.00	-
Junior Engineer	2.00	2.00	-
Junior Plant Operator	11.00	11.00	-
Machinist	16.00	15.00	(1.00)
Machinist Helper	13.00	13.00	-

	FY2015/16 Amended	FY2016/17 Proposed	Change
Utilities (continued)			
Machinist Supervisor	4.00	4.00	-
Media and Communications Specialist*	2.00	1.00	(1.00)
Meter Reader	4.00	4.00	-
Meter Reading Supervisor	1.00	1.00	-
Operations Manager	1.00	1.00	-
Plant Operator	28.00	29.00	1.00
Plant Services Manager	1.00	1.00	-
Principal Engineer	1.00	1.00	-
Process Control Systems Specialist	6.00	6.00	-
Program Analyst	9.00	9.00	-
Program Manager	4.00	4.00	-
Program Specialist	11.00	11.00	-
Senior Accountant Auditor	1.00	1.00	-
Senior Accounting Technician	1.00	1.00	-
Senior Department Systems Specialist	3.00	3.00	-
Senior Engineer	16.00	16.00	-
Senior Engineering Technician	2.00	2.00	-
Senior Generator Technician	1.00	1.00	-
Senior IT Support Specialist	1.00	1.00	-
Senior Maintenance Worker	4.00	6.00	2.00
Senior Plant Operator	15.00	16.00	1.00
Senior Staff Assistant	4.00	4.00	-
Senior Store Keeper	1.00	1.00	-
Storekeeper	4.00	4.00	-
Stores Administrator	1.00	1.00	-
Stores Clerk II	2.00	2.00	-
Student Trainee (Engineer, Computer)	0.90	0.90	-
Supervising Engineer	7.00	7.00	-
Supervising Financial Analyst	1.00	1.00	-
Supervising Generator Technician	1.00	1.00	-
Supervising Plant Operator	6.00	6.00	-
Supervising Water Quality Chemist	1.00	1.00	-
Support Services Manager	1.00	1.00	-
Systems Engineer	1.00	1.00	-
Typist Clerk II	6.00	6.00	-
Typist Clerk III	3.00	3.00	-
Utilities Locator	7.00	7.00	-

	FY2015/16	FY2016/17	Change
	Amended	Proposed	
Utilities (continued)			
Utilities Operations and Maintenance Leadworker	71.00	71.00	-
Utilities Operations and Maintenance Specialist	12.00	12.00	-
Utilities Operations and Maintenance Serviceworker	81.00	83.00	2.00
Utilities Operations and Maintenance Supervisor	18.00	18.00	-
Utility Construction Coordinator	2.00	2.00	-
Utility Operations and Maintenance Superintendent	7.00	7.00	-
Utility Services Inspector	2.00	2.00	-
Water Conservation Representative	3.00	3.00	-
Water Conservation Specialist	3.00	3.00	-
Water Cross Connection Control Specialist	1.00	1.00	-
Water Quality Chemist	4.00	4.00	-
Water Quality Lab Technician	3.00	3.00	-
Total	537.90	547.90	10.00