



**SOUTH COUNTY REGIONAL
WASTEWATER AUTHORITY**

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DATE: May 10, 2011

T TO: Honorable Chairman Dillon and Members of the Board

FROM: Thomas J. Haglund, Authority Manager

SUBJECT: Budget Adoption

Recommendation

Please find attached updated materials for the proposed two year budget for the South County Regional Wastewater Authority (SCRWA) for Fiscal Years 2012 and 2013 (FY 12 and FY 13) and the FY12 - 17 Capital Improvement Budget (CIB). Staff respectfully recommends that the Board, by motion, adopt the proposed two year budget and CIB.

Discussion

As discussed at the April 12, 2011 SCRWA Board meeting, the cost for certain vehicles have been updated in future years. In addition, the FY 12 and FY 13 personnel expenditures have been updated in the chemical control – pretreatment division as a result of the contractual end to the city of Gilroy furlough program effective July 1, 2011.

Subsequent to the development of the draft budget by the partner agencies and submitted to the Board at your April meeting, the partners' staff met to consider temporary deferrals and cost reductions which are included here.

Staff proposes the following changes to the attached budget which are further discussed below: (1) deferring several of the capital improvement items from FY 12 to FY 13, (2) reducing the \$250K depreciation reserve to \$100K and (3) adjusting the FY 12 budget to reflect anticipated savings in FY 11.

Staff from both partner agencies identified certain capital projects in the FY 12 budget that can be completed in FY 13 without compromising the operational efficiency of the SCRWA operations. These projects include: video surveillance (\$75K), lab refrigerator (\$10K), VFD upgrades (\$35K), west generator set (\$102K), screen and classifier (\$75K) and chemical tanks (\$40K). The deferred capital projects total \$337K.

In each of the past several years, the SCRWA has provided \$250K to the reserve fund. The reserve provides the SCRWA some fiscal flexibility in case of an emergency or major facility failure. Staff proposes that the FY 12 amount be reduced from \$250K to \$100K. The amount is

being reduced to lower the required contributions from the two member agencies, but continues the effort to add to the SCRWA's reserves.

Staff has determined that there will be FY 11 savings recognized in utilities costs (approximately \$500K), biosolids disposal (approximately \$300K) and the SCRWA's operations and maintenance contract with CH2M HILL, when comparing the budgeted expenditure amounts with actual expenditures likely to be incurred by the end of the fiscal year. The SCRWA will collect the full amount of contributions in FY 11 from each of Morgan Hill and Gilroy. In FY 12, the year in which the City will receive its saving refund check from CH2M HILL, the budgeted revenue will reflect such refund for approximately \$400K. The FY 10 refund reflected a savings in CH2M HILL salary and benefits, reduction in repair costs and more work done internally rather than through subcontract. These savings will continue into FY 12.

The accumulated annual savings in FY 11 utilities and biosolids costs will benefit the agencies in FY 12 through reduced member contributions. The utilities savings are due to equipment downtime in FY 11 that resulted in a significant reduction in PG&E costs. Although biosolids disposal costs have been a previous concern, we are now confident that these costs will be lower than anticipated in FY 11 as a result of contract negotiations with the landfill.

Staff will be present to answer any questions the Board may desire to ask.



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April 12, 2011

Members of the Board of Directors
South County Regional Wastewater Authority
Administration Building
1500 Southside Drive
Gilroy, California 95020

Subject: Budget Transmittal

Honorable Chairman Dillon and Members of the Board:

This letter transmits to you and the cities of Gilroy and Morgan Hill the proposed two year budget for the South County Regional Wastewater Authority ("SCRWA" or "Authority") for Fiscal Years 2012 and 2013 (FY 12 and FY 13). Also transmitted is the 2012 - 2017 Capital Improvement Budget ("CIB"). The operations budget and CIB are fully balanced with revenues meeting expenditures for the budget term.

The SCRWA is a joint powers authority of the cities of Gilroy and Morgan Hill. Formed in 1992 the Authority serves both cities treating approximately 2.4 - 2.6 billion gallons of wastewater and producing 600-650 million gallons of recycled wastewater each year for use in landscaping, agricultural, industrial and other applications. The Authority is governed by a five (5) member board of directors consisting of city council members from each member agency; three (3) members from the city of Gilroy and two (2) members from the city of Morgan Hill. The city of Gilroy provides administrative oversight and staffing services to the SCRWA with the Gilroy City Administrator serving as the SCRWA General Manager. General administrative oversight includes contracts negotiation and administration, financial management, public works services, capital project management, budget preparation, insurance administration, and chemical control services amongst others. The SCRWA daily operations are provided under a third party contract with CH2M HILL.

The SCRWA is an award winning plant, recognized for its efficiencies and operational acumen and was honored with "Overall Plant of the Year" awards in 2005, 2007 and 2008 by the Monterey Bay Section of the California Water Environment Association ("CWEA"). The SCRWA was also the recipient of "Medium Plant of the Year" awards in 2009 and 2010 by the Monterey Bay Section of the CWEA. Also, the SCRWA has received the Plant Safety Award (1 to 25 employees) from the State of California in 2007 and eight of the past ten years for the Monterey Region.

Goals and Objectives

This two year budget provides the Board and Authority the ability to provide for systematic long range planning over the budget term, achieve efficiencies in the second year of the budget and focus on validation efforts and

other worthwhile projects. The two year budget also demonstrates a commitment to operate the SCRWA over the long term with a balanced budget.

Included in this budget are programmatic details including each division's primary goals and objectives with performance and benchmarking measures that help in defining both the scope of operations of the SCRWA, but also measuring performance in pursuit of efficiencies and discovery of new and improved methods of operation. The budget document highlights the goals and objectives of the Authority's divisions including an identification of productivity and benchmarking measures that will test the performance of operations and serve as a guide for future decisions relative to the Authority's operational and capital needs.

The budget document is comprised of two primary divisions, Administration/Operations and Chemical Control-Pretreatment. Each division highlights specific objectives to be completed over the biennial budget term.

Administration Budget

This division is comprised of four cost centers including debt service, construction, administration and operations.

Debt Service – (838-0400)

In prior years, the debt service fund was used for debt service for the debt of Morgan Hill and Gilroy. In March 2010, the City of Gilroy refinanced its installment payment obligation which was originally structured as sewer revenue bonds through the SCRWA. The structure consisted of a pledge of an installment sale from the City of Gilroy to the SCRWA as the collateral for the revenue bonds issued by the SCRWA. As part of the March 2010 refunding, the City of Gilroy issued new bonds, paid off the SCRWA bonds and now has the new obligation in its sewer fund. There is no longer any outstanding debt on the SCRWA's financial statements for Gilroy.

In both FY 12 and FY 13, the SCRWA debt service budget will show approximately \$1.8 million in revenues from Morgan Hill which is for interest and the retirement of debt associated with its debt service payments for previous expansions of the SCRWA facility. The debt service cost center reflects Morgan Hill's revenue requirements to pay its individual cost associated with bond redemption and interest. Debt service expenditures will be equal to the revenue shown for this budget. The members, Morgan Hill and Gilroy, separately administer the debt service for the debt related to each of their individual infrastructure costs.

Construction – (839-2674)

Consistent with the Debt Service cost center, the Construction budget identifies the individual cost to both Morgan Hill and Gilroy for construction undertaken over the budget term. Corresponding revenues sufficient to undertake the capital expenditures are identified for each member. Detail of the expenditures for this budget is identified in the CIB section of this transmittal letter below.

Administration – (840-0435)

The Administration budget consists of various services provided to the SCRWA, including liability and property insurance, professional support for training and travel, annual audit services and legal service provided through contract by Berliner Cohen. These services support statutory requirements of the Authority with respect to the filing of an annual audit as well as legal services to the Board and staff related to operational matters. This cost center is also used to record overhead and depreciation charges, as well as to record the annual \$250,000 contribution to the SCRWA reserves funded by the members.

Operations – (840-2666)

Revenue in the operations budget is primarily derived from reimbursements according to user share by the member agencies. In FY 12 and 13, Gilroy will provide user fee reimbursements of approximately \$4.5 and \$5.2 million, respectively and Morgan Hill will provide reimbursements of approximately \$3.5 million and \$3.8 million, respectively. Other user fees come from charges to private septic dischargers at the plant. In FY 12 and 13, the SCRWA will notice a continued reduction in revenues for this line item primarily due to lower use of the service by private septic haulers. In FY 12, the SCRWA will pay \$3.6 million to CH2M HILL for their services as plant operators. In FY 13 the cost of services for CH2M HILL is estimated to be approximately \$3.8 million. Biosolids removal, transportation and disposal cost is \$700K in FY 12, and \$735K in FY 13. The operations budget will incur contractual expenses of \$470K and \$300K in each of FY 12 and FY 13 for specialized engineering services with MWH Americas, Inc., (“MWH”) for technical studies and reports that are required to be completed on an annual basis. In addition, MWH will provide engineering studies related to the reclamation permits, design and construction management services for minor capital projects, as well as other mandates related to the Waste Discharge Requirements Order and the National Pollutant Discharge Elimination System (“NPDES”) permit for secondary effluent through the Regional Water Quality Control Board. Additionally, if necessary, MWH will assist Morgan Hill and Gilroy with addressing certain of the requirements related to the cities’ applications to the State Revolving Fund (“SRF”) for the upcoming plant expansion, including related review of the design of the plant improvements.

The current treatment plant facilities were constructed in 1994 and are now approaching 20 years of operation. The rotating equipment within the plant is, in general, approaching the time when significant rebuild work will be required. As with most industries, the cost to maintain wastewater equipment climbs with the age of the equipment. In FY 12 and FY 13, the SCRWA is continuing the generators replacement project to replace the two existing generators with a new, contemporary generator capable of maintaining plant operations during power failure, expending approximately \$972K. One of the new generators is anticipated to be installed in FY 13. For mechanical equipment, beginning in FY 13, the SCRWA will undertake a seven-year mixer replacement program for both pre-anoxic and post-anoxic basins. In FY 12, the grit classifier at headworks will be replaced. The Authority will replace chemical tanks, rebuild clarifier drives, rebuild aerators, and replace pumps including the filter feeds. The new equipment will replace an aging system that has reached its useful life and does not meet reliability criteria for a plant of the SCRWA’s capacity and scope of operations.

Other operations related expenditures in FY 12 and FY 13 include variable frequency drives upgrades, a new crane in the dewatering facility, a laboratory refrigerator, and site security improvements. No change to the SCRWA fleet, new vehicles or farm equipment is programmed in FY 12 and FY 13.

Chemical Control – Pretreatment Budget – (840-2668)

The SCRWA operates a pre-treatment program to assure compliance with federal and state regulations relative to waste stream discharge. The division conducts inspections of significant facilities on an annual basis and approximately 200 inspections of non-significant facilities each fiscal year. These inspections help to ensure that discharge to the wastewater system is in compliance with the law and to protect the system as a preventative measure from the entrance of pollutants that would otherwise upset or interfere with plant operations. The division also conducts permitting operations consistent with federal and state guidelines. The division conducts all of these activities for both member agencies with staffing services provided by the city of Gilroy. Morgan Hill

reimburses Gilroy for its share of the cost of these services. Only minor expenditures will occur in the Operations/Chemical Control CIB which will primarily include a sampler in FY 12.

Capital Improvement Budget ("CIB")

The capital budget provides a 6-year window of projects to be completed within the CIB horizon, although only the first two years are specifically addressed in this transmittal letter. In FY 12, the river outfall structure and river discharge facilities will be fully operational with project closeout expenditures estimated at \$195K. Related to this project, there is a cost share agreement between the SCRWA and the Water District which will reimburse the SCRWA \$160,000 of the said amount. The most aggressive expenditures identified in the CIB relate to the upcoming plant expansion that will span at least six (6) fiscal years. In FY 12 the SCRWA will complete the construction of the new influent pump station ("IPS"), complete the design of baseline facility improvements, and also complete approximately 50% of the design for the overall plant capacity expansion, expending approximately \$2.63 million. The design for the overall plant capacity expansion project will be fully completed in FY 13. It includes design of a new maintenance facility. The current maintenance facility is substandard for maintaining a wastewater treatment plant of the SCRWA's size and complexity including the required level of service for plant expansion. It is anticipated that the construction of baseline improvements for plant expansion will begin in FY 14 with expenditures estimated at \$13.3 million. Additionally in FY 12 and FY 13, the SCRWA is installing a new generator to support the expanded reclamation and river discharge system, expending approximately \$1.2 million. These projects are necessary to accommodate future growth in both cities.

The SCRWA is embarking on a period of significant activity with the planned expansion of the plant, and the completion of the new IPS. These projects will allow for the SCRWA to accommodate growth in both the cities of Gilroy and Morgan Hill over the next 20 years. The facility continues to be well managed with operations staff recognized for their skill and ability in providing for efficient and effective services in the furtherance of environmentally sensitive treatment and disposal of wastewater for our region. The cities of Gilroy and Morgan Hill are well served by their joint venture and the staffs of each agency, along with CH2M HILL and MWH, are to be credited with the success of the Authority.

Finally, special recognition is to be given to those who participated in the development of this budget document, including Christina Turner, Barbara Voss, Rick Smelser, Saeid Vaziry, Joe Hall, Rosemary Guerrero and Eileen Jacobs.

Respectfully submitted,

Thomas J. Haglund
General Manager