

CITY OF SANTA CRUZ  
City Hall  
809 Center Street  
Santa Cruz, California 95060



## WATER COMMISSION

Regular Meeting

July 12, 2021

7:00 P.M. GENERAL BUSINESS AND MATTERS OF PUBLIC INTEREST, COUNCIL  
CHAMBERS

**COVID-19 ANNOUNCEMENT: This meeting will be held via teleconference ONLY.**

In order to minimize exposure to COVID-19 and to comply with the social distancing suggestion, the Council Chambers will not be open to the public. The meeting may be viewed remotely, using the following sources:

- Zoom Live (no time delay): <https://zoom.us/j/93412600283>
- Facebook: [https://www.facebook.com/SantaCruzWaterDepartment/?epa=SEARCH\\_BOX](https://www.facebook.com/SantaCruzWaterDepartment/?epa=SEARCH_BOX)

### PUBLIC COMMENT:

If you wish to comment during on items 1-7 during the meeting, please see information below:

- Call any of the numbers below. If one number is busy, try the next one. Keep trying until connected.
  - +1 669 900 9128
  - +1 346 248 7799
  - +1 253 215 8782
  - +1 301 715 8592
  - +1 312 626 6799
  - +1 646 558 8656
- Enter the meeting ID number: 934 1260 0283
- When prompted for a Participant ID, press #.
- Press \*9 on your phone to "raise your hand" when the Chair calls for public comment.
  - It will be your turn to speak when the Chair unmutes you. You will hear an announcement that you have been unmuted. The timer will then be set to three minutes.
  - You may hang up once you have commented on your item of interest.
  - If you wish to speak on another item, two things may occur:
    - 1) If the number of callers waiting exceeds capacity, you will be disconnected and you will need to call back closer to when the item you wish to comment on will be heard, or
    - 2) You will be placed back in the queue and you should press \*9 to "raise your hand" when you wish to comment on a new item.

**NOTE:** If you wish to view or listen to the meeting and don't wish to comment on an item, you can do so at any time via the Facebook link or over the phone or online via Zoom.

\*Denotes written materials included in packet.

The City of Santa Cruz does not discriminate against persons with disabilities. Out of consideration for people with chemical sensitivities, please attend the meeting fragrance free. Upon request, the agenda can be provided in a format to accommodate special needs. Additionally, if you wish to attend this public meeting and will require assistance such as an interpreter for American Sign Language, Spanish, or other special equipment, please call Water Administration at 831-420-5200 at least five days in advance so that arrangements can be made. The Cal-Relay system number: 1-800-735-2922.

APPEALS: Any person who believes that a final action of this advisory body has been taken in error may appeal that decision to the City Council. Appeals must be in writing, setting forth the nature of the action and the basis upon which the action is considered to be in error, and addressed to the City Council in care of the City Clerk.

Other - Appeals must be received by the City Clerk within ten (10) calendar days following the date of the action from which such appeal is being taken. An appeal must be accompanied by a fifty dollar (\$50) filing fee.

## Call to Order

## Roll Call

Statements of Disqualification - Section 607 of the City Charter states that ...All members present at any meeting must vote unless disqualified, in which case the disqualification shall be publicly declared and a record thereof made. The City of Santa Cruz has adopted a Conflict of Interest Code, and Section 8 of that Code states that no person shall make or participate in a governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect distinguishable from its effect on the public generally.

## Oral Communications

## Announcements

Consent Agenda (Pages 1.1 - 4.15) Items on the consent agenda are considered to be routine in nature and will be acted upon in one motion. Specific items may be removed by members of the advisory body or public for separate consideration and discussion. Routine items that will be found on the consent agenda are City Council Items Affecting Water, Water Commission Minutes, Information Items, Documents for Future Meetings, and Items initiated by members for Future Agendas. If one of these categories is not listed on the Consent Agenda then those items are not available for action.

1. City Council Actions Affecting the Water Department (Pages 1.1 - 1.3)  
Accept the City Council actions affecting the Water Department.
2. Water Commission Minutes from May 3, 2021 (Pages 2.1 - 2.7)  
Approve the May 3, 2021 Water Commission Minutes.
3. FY 2021 3rd Quarter Unaudited Financial Report (Pages 3.1 - 3.6)  
Accept the FY 2021 3rd Quarter Unaudited Financial Report.
4. Santa Cruz Water Rights Project: Draft Environmental Impact Report Release (Pages 4.1 - 4.15)  
Receive information on the release of the Draft Environmental Impact Report for the Santa Cruz Water Rights Project.

Items Removed from the Consent Agenda

General Business (Pages 5.1 - 7.14) Any document related to an agenda item for the General Business of this meeting distributed to the Water Commission less than 72 hours before this meeting is available for inspection at the Water Administration Office, 212 Locust Street, Suite A, Santa Cruz, California. These documents will also be available for review at the Water Commission meeting with the display copy at the rear of the Council Chambers.

5. Water Rate Structures - Feedback from Single-Family Residence Customer Panels on Rate Structure Approaches (5.1 - 5.9)

Receive information for use in considering rate structure alternatives to be presented during agenda item 6.

6. Future Water Rate Options Using Three Water Rate Structures (Pages 6.1 - 6.46)

Receive and discuss an informational presentation on Water Rate Structure Options and provide direction to staff and the consulting team on which of the three options to use to develop a five-year rate schedule for the Commission's final review and action at its August 23rd meeting.

7. State and Federal Initiatives for Low Income Water Rate Assistance Programs (Pages 7.1 - 7.14)

Receive information related to the status of various state and federal initiatives for low-income water rate assistance programs.

Subcommittee/Advisory Body Oral Reports

8. Santa Cruz Mid-County Groundwater Agency

9. Santa Margarita Groundwater Agency

Director's Oral Report - No action shall be taken on this item.

Information Items

Adjournment

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WATER COMMISSION  
INFORMATION REPORT

DATE: 7/7/2021

AGENDA OF: July 12, 2021  
TO: Water Commission  
FROM: Rosemary Menard, Water Director  
SUBJECT: City Council Actions Affecting the Water Department

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RECOMMENDATION: That the Water Commission accept the City Council actions affecting the Water Department.

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BACKGROUND/DISCUSSION:

**May 11, 2021**

No agenda items to report.

**May 25, 2021**

No agenda items to report.

**June 8, 2021**

Contract Amendment No. 2022-01 with HDR, Inc. for Program Management Services for Water System Capital Investment Program (WT)

Motion **carried** authorizing the City Manager to execute Contract Amendment No. 2022-01 with HDR Engineering Inc. for Service Order No. 7 in the amount of \$6,855,657 in a form to be approved by the City Attorney.

Newell Creek Dam Inlet/Outlet Replacement Project – Ratification of Contract Change Order (WT)

Motion **carried** to ratify contract change orders for the Newell Creek Dam Inlet/Outlet Replacement Project, and authorize the Water Director to approve future change orders within the approved project budget.

Resolution to Authorize the Agreement between the City of Santa Cruz Water Department and Bank of America for a \$50 Million Line of Credit (WT)

**Resolution No. NS-29,837 was adopted** authorizing the borrowing of, not to exceed, \$50,000,000 from Bank of America, N.A. under a Revolving Line of Credit agreement, and hereby authorizing the City Manager to execute documents in a form approved by the City Attorney.

**June 22, 2021**

Loch Lomond Reservoir Aeration System Slab Construction – Contract Change Order No. 1 and Notice of Completion (WT)

Motion **carried** to:

- Ratify Contract Change Order No. 1 with Anderson Pacific Engineering Construction, Inc. (Santa Clara CA) in the amount of \$20,328.84; and,
- Accept the work of Anderson Pacific Engineering Construction, Inc. as complete per the plans and specifications and authorizing the filing of the Notice of Completion for the Loch Lomond Reservoir Aeration System Slab Construction and to authorize the Water Director to sign the Notice of Completion as the Owner’s Authorized Agent.

Newell Creek Dam Inlet/Outlet Replacement Project - Master Service Agreement NCD-Fifth Amendment with Ecological Concerns Incorporated for Restoration and Revegetation Services, and Approval of Access Agreement (WT)

Motion **carried** to:

- Authorize the City Manager to execute NCD-Fifth Amendment under the Master Service Agreement with Ecological Concerns Inc. (ECI) for restoration and revegetation services for the Newell Creek Dam Inlet/Outlet Replacement Project in a form to be approved by the City Attorney; and
- Authorize the City Manager to execute an Access Agreement with the Land Trust of Santa Cruz County for access and authorization to complete the Canham Meadow Wetland Restoration Project in a form approved by the City Attorney; and
- Authorize the Water Director to execute future contract amendments with ECI for restoration and revegetation services that are within the approved project budget for the Newell Creek Dam Inlet/Outlet Replacement Project.

Agreement with Carollo Engineers for Application Assistance for the United States Environmental Protection Agency Water Infrastructure Finance and Innovation Act Loan for Backbone Water Infrastructure Projects (WT)

Motion **carried** authorizing the City Manager to execute an agreement in the amount of \$106,924 with Carollo Engineers to support the Water Department’s application for a United States Environmental Protection Agency (USEPA) Water Infrastructure Finance and Innovation Act Loan (WIFIA) to support the Capital Investment Program (CIP) in a form to be approved by the City Attorney and to authorize the Water Director to execute future contract amendments within the approved budget.

City Council Support for State and Federal Legislation or Programs Providing Resources for On-going Low-Income Water and Wastewater Assistance Programs (WT)

Motion **carried** to authorize the Mayor to send letters on behalf of the City to federal and state policy-makers and legislative representatives expressing support for current or potential future legislation or programs that will provide on-going funding for water and wastewater rate-payer assistance for qualifying low-income customers.

Graham Hill Water Treatment Plant Tube Settler Replacement Project and Graham Hill Water Treatment Plant Flocculator Replacement Project – Notice of Completion (WT)

Motion **carried** to accept the work of W.M. Lyles Co. (Fresno, CA) as complete per the plans and specifications and authorizing the filing of a Notice of Completion for the Graham Hill Water Treatment Plant Tube Settler Replacement Project and Graham Hill Water Treatment Plant Flocculator Replacement Project and to authorize the Water Director to sign the Notice of Completion as the Owner's Authorized Agent.

PROPOSED MOTION: Motion to accept the City Council actions affecting the Water Department.

ATTACHMENTS: None.

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Water Department

**Water Commission**  
**7:00 p.m. – May 3, 2021**  
**Council Chambers/Zoom Teleconference**  
**809 Center Street, Santa Cruz**

**Summary of a Water Commission Meeting**

**Call to Order:** 7:00 PM

**Roll Call**

**Present:** J. Burks (via Zoom), T. Burns (Via Zoom), D. Engfer (via Zoom), S. Ryan (Chair) (via Zoom), A. Páramo (via Zoom), W. Wadlow (Vice-Chair) (via Zoom)

**Absent:** D. Schwarm, with notification

**Staff:** R. Menard, Water Director (via Zoom); D. Baum, Water Chief Financial Officer (via Zoom); C. Coburn, Deputy Director/Operations Manager (via Zoom); M. Kaping, Management Analyst (via Zoom); H. Luckenbach, Deputy Director/Engineering Manager (via Zoom); S. Perez, Principal Planner (via Zoom); Nicole Dennis, Principal Management Analyst (via Zoom); Katy Fitzgerald, (Working Out of Class) Management Analyst (via Zoom); C. Galati, Administrative Assistant III (via Zoom)

**Others:** Three members of the public (via Zoom)

**Presentation:** None.

**Statements of Disqualification:** None.

**Oral Communications:** None.

**Announcements:** None.

**Consent Agenda**

1. City Council Items Affecting the Water Department
2. Water Commission Minutes from April 5, 2021

**Items Pulled from the Consent Agenda - None**

**General Business**

3. Water Rates – 1st Look – Rate Structure and Preliminary Rates and Customer Panels

Ms. Menard introduced Mr. Sanjay Gaur for the presentation and discussion of the Water Rates and a First Look Rate Structure and Preliminary Rates and Customer Panels for the Water Commission's consideration and feedback.

Looking at the cost allocations, other than looking at the inside/outside rate differentials, does it reflect the cost of service analysis work that has been completed to date?

- Yes, all of the policy and analytical items that have been presented and discussed in the past have been taken into account.

You went back and reanalyzed the cost for providing the cost of elevation pumping and ended up deciding they were lower than what had been anticipated before, correct?

- Correct, during the last rate study, the approach was to have just one amount for all pumping. That amount was \$0.51 per CCF. During implementation, Water Customer Service reported that they were having a hard time explaining to customers why everyone was paying the same surcharge. Those living at lower elevations reasoned that it must cost less to pump water to their residence than it cost to pump water to those residences at higher elevations.

In the current cost of service study, staff responded to this input by dividing the pumped zones into based on how many times the water must be pumped. This analysis focuses on power cost recovery and excluded the infrastructure maintenance costs that had been included in the 2016 rate-setting project. Part of the reason for this change is the result of acknowledging that the elevated storage in this system is part of water system infrastructure that benefits the whole system, particularly related to available water from that storage for fire flows.

Can you explain the difference between public fire and private fire? Is private fire a sprinkler in someone's home?

- Yes, in this analysis, private fire refers to fire suppression facilities on private property, such as fire sprinklers in someone's home, or a hotel, hospital, or school. Public fire facilities include fire hydrants, and the water distribution and distribution system storage that supports the fire suppression function.

What customers in the water service area are served by larger meters?

- The eight and ten-inch meters generally provide service to UCSC, or to a very large user such as Dominican Hospital. A six-inch meter can be needed to provide service to a large mixed-use customer such as the Pacific-Front-Laurel development that has 205 apartments plus street-level retail/commercial. And, a two-inch meter is standard for residential fire services for anything, particularly new construction that is required fire sprinkler-related.

In your presentation rating the various alternatives against the water pricing objectives that the Water Commission and City Council have prioritized, why are affordability for essential use, transparency and ease of administration rated so much lower for the Infrastructure Reinvestment Fee (IRF) on the property roll than for the other three options?

- Putting water-related capital maintenance fees on the property tax roll for residential parcels is fairly straightforward. However beyond the residential customer sector, things get a bit more complicated. For example, establishing methods for sorting through how to collect for the IRF costs associated with HOA irrigation for common areas, and ensuring that entities such as schools and government buildings that don't pay property

taxes are included in revenue collections for the benefits they receive from the system will be needed

Regarding the ease of administration for collecting the IRF on the property role, whose job is it to collect, the county or the city staff?

- The city and county use a widely adopted approach called the Teeter Plan which places the responsibility for collection of any unpaid property taxes, including any charges that would be associated with a water-related infrastructure reinvestment type fee that the City might be collected via the property tax roll, on the county.

The basic process would require the Department to produce a data file for each property in our service area subject to property tax, link our metered water service to each property, and provide the fee to be collected. This file would be submitted to the County Auditor/Comptroller by a date certain each summer and would be integrated with the preparation of property tax bills that are issued in the fall. Revenues collected for water-related services would be paid out in full in two or three disbursements spread out over the year. As noted above, any uncollected charges would be paid to us by the County as if they had been received, and then collections would fall to the County if and as needed.

How will the charge be reflected on the property tax bill?

- Property tax bills typically provide a lot of line-item detail. This means that the recipient or the reviewer can typically see both the rate being charged and the assessed valuation which is the basis for many, but not all property tax calculations. In the case of a water-related fee, if this idea is pursued, the idea would be to base the annual charge on the size of the meter serving the property and not-assessed value of the property.

Can you clarify the difference between using a uniform commodity approach for collecting the IRF versus incorporating it into the Readiness to Service Charge (RTS)? Why would those numbers be so different and when would it be considered much more affordable for essential use than the other?

- Using a uniform charge would apply the same charge to each one of the units used. This is different from the current approach in that the current approach applies the charge to each water unit used, but the rate is tiered so the more you use, the more you pay. Collecting funds necessary to support the Capital Investment Program (CIP) via the RTS, would use meter size as a way to allocate the total amount of revenue required to cover debt service and support at least some pay as you go investment in capital.

If the focus of the CIP is improvements in supply and infrastructure reliability, who are the beneficiaries of this enhanced reliability?

- Everyone would benefit from certain kinds of reliability improvements. If we upgrade the treatment plant then everyone who gets water from the treatment plant benefits no matter the amount of water that they consume. The benefits to ratepayers of the improvements that the infrastructure reinvestment fee is paying for are probably more broadly shared than would be reflected by charging based on paying per unit of consumption would demonstrate.

On the RTS Charge slide you list the number of meters, does that include fire meters?

- No. Those numbers do not reflect fire meters.

Slides, on packet pages 3.27 and 3.33, show how costs would be allocated to various customer

classes for options where the IRF is collected through a tiered rate based on levels of water use (slide on page 3.27) and for the option where the IRF is collected as part of the RTS (slide on page 3.33). Looking at these two slides, how would you respond to an observation that it looks like putting the IRF on RTS Charge results in the residential customer class subsidizing the commercial and UCSC customer classes as their charges are going down and residential is going up?

- The two different approaches presented in the two slides and their resulting differences in how cost shares are allocated are based on two different ideas about who is benefitting from the work being funded by the IRF.

In the example where the IRF is collected as part based on water use and using tiered rates is based on the idea that those using lower levels of water are receiving fewer benefits from infrastructure reinvestments than those using greater quantities of water.

In the example where the IRF is collected as part of the RTS retains the idea that those using larger quantities of water, as reflected by meter size, are benefitting more than those using smaller meters, but also is based on the idea that everyone with the same size meter, regardless of how much water that customer actually uses, is benefitting from the system and supply reliability investments equally and so it is appropriate for everyone with similarly sized meters should pay the same amount.

Neither approach is inherently right or wrong. As described they reflect different, but equally legitimate approaches to allocating costs.

What was the most surprising and disturbing feedback that you received from the commercial and irrigation panels?

- The commercial and irrigation customers are well versed in the water budgets and understanding it. There was nothing disturbing or overly concerning.

How should we shape the feedback from the commercial and irrigation customer panels knowing that we are missing the residential part?

- [Santacruzwatertalk.com](http://Santacruzwatertalk.com) is a website where residential customers can go on and give their feedback and it is encouraged that anyone interested in giving input please go on and use the site. (Also, residential customer panels are being planned for June so their input will be included in this work as well as that of other customer groups.)

One member of the public comment was received.

#### 4. Graham Hill Water Treatment Plant, Design-Build Process, and Facility Improvement Project Goals

Ms. Menard introduced Mr. Matt Zeman for the presentation and discussion of the Graham Hill Water Treatment Plant, Design-Build Process, and Facility Improvement Project Goals for the Water Commission's consideration and feedback.

When is the next time this will be presented to the Water Commission?

- The Department anticipates sending the Phase One contract to City Council in August. An informational presentation focusing on the scope of work for this contract will be provided to the Water Commission at that time.

No public comments were received.

#### 5. FY22 Budget and CIP – First Look

Ms. Menard introduced Ms. Nicole Dennis, Mr. David Baum, Ms. Malissa Kaping and Ms. Katy Fitzgerald for the presentation and discussion of the FY 2022 Budget and CIP First Look for the Water Commission’s consideration and recommendation to the City Council.

Has the Department experienced any problems with accessing necessary supplies and materials, or is the Department experiencing changes to pricing that may be influence project schedules?

- As a government agency, there tend to be more resources available than you would see in a private market, but there are still some delays that can happen. Historically there has not been an issue with supply being completely unavailable although occasionally we experience a ripple effect from things that happen elsewhere, for example, the February 2021 Texas deep freeze may have longer-term impacts on the availability of some materials as a lot of manufacturing done in Texas was disrupted by that event.

Can you elaborate on the pause that is taking place on the mains replacement project in FY22?

- The FY 2021 budget for a contractor completed water main replacement project wasn’t spent and will be carried forward to FY 22, so we didn’t need to add funds to the FY 22 budget. The next main replacement that the Department is looking at is over by Dominican Hospital.

How do we maintain credibility when it comes to rates and our customers when our budget over and under fluctuates?

- The cost of services analysis is being done based on FY19 actuals, so it is not seeing the swing between budgeted and actuals. Staff acknowledges the challenges of “dialing in” the annual budget projections as well as monitoring spending throughout the fiscal year. In response to this issue, managers were directed to use FY 20 actual costs as a basis for preparing their FY 22 budget proposal. This direction resulted in an FY 22 proposed budget that is 2% lower than the FY 21 adopted budget.

Is the Department comfortable with the current staffing levels as you go into FY22?

- When the Department started ramping up its CIP, it evaluated a range of options for meeting the anticipated staffing needs associated with that initiative. The strategy that was adopted involved using a program management consultant to bring resources to the Department that would evolve as the program’s needs developed and evolve through the different phases of the work. Department staff are happy with this approach to addressing CIP-related staffing, and regularly reviews internal and external staffing levels and skill mix to optimize it. Over the last few years, additions have been made to Operating staff to support staff being engaged in CIP-related work for activities like alternative evaluations a plan reviews. These staff members have important knowledge of the facilities and operations that need to be integrated into project planning efforts as well as project implementation work.

Why does the Capital Investment Projects (CIP) fluctuate so much?

- The cash needs are based on schedules for the projects being worked on. With two big projects, specifically, the Newell Creek Dam Inlet/Outlet Replacement and the GHWTP Concrete Tanks, being in construction costs in the years when this construction is underway are inevitably going to be higher than when project related work is in other phases of development.

No public comments were received.

Commissioner Wadlow moved the staff recommendation on Item 5. Commissioner Páramo seconded.

VOICE VOTE: MOTION CARRIED  
 AYES: All  
 NOES: None  
 ABSTAIN: None

### **Subcommittee/Advisory Body Oral Reports**

#### **6. Santa Cruz Mid-County Groundwater Agency (MGA)**

Ms. Menard reported that there has not been a meeting of the Mid-County Groundwater Agency since the last Water Commission and nothing to report on at this time. The next meeting is scheduled for Thursday, June 17, 2021.

#### **7. Santa Margarita Groundwater Agency (SMGWA)**

Commissioner Engfer explained that people are starting to understand the issues that the SMGWA will need to address going forward and this probably means that there is a greater potential for various parties to work together on regional solutions in the future. It is also likely Santa Cruz will be invited to become a member of the SMGWA Joint Powers Agreement (JPA) sooner rather than later.

A major focus of the SMGWA's work for the next few months is getting a draft GSP document put together and ready for release for a 60 day public comment period starting in late July.

One focus of discussion at the late April Board meeting was on Projects and Management Actions (PMAs) that need to be described and included in Section 4 of the GSP document. The Board received a presentation of a lot of information about potential PMAs, although most of the options presented are still only concepts without much detail. Reasonably anticipated questions like comparability of cost, identification of who would benefit and who would pay can't be answered at this point due to the highly conceptual nature of the virally all of the PMAs. A major work program for the future will be needed to try to further develop these PMAs between completion of this GSP and the five-year update.

**Director's Oral Report:** Ms. Menard reminded everyone that the Water Department has initiated State One water restrictions that went into effect Saturday, May 1<sup>st</sup>. A bill insert during April was distributed asking for information on household residents to confirm the number of residents to ensure that they are getting the most accurate water allocations for the household size. The department's Customer Service and Conservation staff have been deployed to get this

off the ground in a successful way. The billing system is also an important part of the plan, but there are some issues to overcome there as well.

**Adjournment** Meeting adjourned at 10:25 PM.

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WATER COMMISSION  
INFORMATION REPORT

DATE: 7/7/2021

AGENDA OF: July 12, 2021

TO: Water Commission

FROM: David Baum, Chief Financial Officer  
Malissa Kaping, Management Analyst

SUBJECT: FY 2021 3rd Quarter Unaudited Financial Report

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RECOMMENDATION: That the Water Commission accept the FY 2021 3rd Quarter Unaudited Financial Report.

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BACKGROUND: On June 6, 2016, the Water Commission approved the Water Department's Long Range Financial Plan (LRFP) which created a framework to ensure financial stability and maintain the credit rating needed to debt finance major capital investments planned for the utility. The LRFP includes financial targets for debt service coverage ratio (1.5x), a combined 180 days cash on hand, \$3.1 million in an Emergency Reserve, and a \$10 million Rate Stabilization reserve. The Department's LRFP will be updated as a component of the Cost of Service Analysis currently underway and will include Scenario 4 (\$650 million CIP over 15 years) developed by the Water Commission's Ad Hoc Subcommittee on Revenue Forecasting and Financial Scenario Planning and approved by the Water Commission.

The data in the Quarterly Financial Report provides a snapshot in time and represents the time period of July 1, 2020 through March 31, 2021. The City operates on a fiscal year basis, which closes on June 30<sup>th</sup>.

In 2019, an Ad Hoc Subcommittee of the Water Commission and Water Department staff worked together to update the quarterly financial report. The purpose of the update was to provide a clearer picture of financial trends and results to the Water Commission. By conveying better information, we are able to show successes, identify problem areas and provide information to demonstrate that appropriate responses are being implemented. With each successive financial report, Department staff have updated the report to reflect Commissioners' comments and further refine the information presented.

DISCUSSION: The attached financial report presents the Department's unaudited fiscal outlook through the third quarter of FY 2021 and is a snapshot of the transactions posted during the time period of July 1, 2020 through March 31, 2021. Page 1 of the attached Financial Report is

focused on the Operating budget and Page 2 reflects the Capital budget. Noteworthy items are discussed on the following pages.

### Operating Revenues

Water sales continue to reflect the impact of the COVID-19 pandemic and are 10% below budgeted amounts. As expected, residential consumption is higher while commercial and UCSC consumption is lower. It is important to note budgeted revenues were based upon the fifth year of rate increases. A six percent increase was scheduled to go into effect on July 1<sup>st</sup>. On February 9, 2021, City Council approved a 10% reduction in budgeted water sales to account for the deferred rate increase and the ongoing commercial sector decline.

In FY 2020, the Water Department was awarded \$371,595 in a Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant for the Brackney Landslide Pipeline Risk Reduction Project to fund a pre-disaster mitigation project to avoid future damage similar to what was experienced in the 2017 winter storms. The first reimbursement claim of \$245,000 was submitted in May. The Water Department recently received approval for an additional \$232,070 in grant funding for this project.

On December 1, 2020, Water Department staff submitted two Drinking Water State Revolving Fund disbursement claims to the State Water Resources Control Board (SWRCB) for the Newell Creek Inlet/Outlet Pipeline replacement project totaling \$23.5 million. \$21 million was received in the 3<sup>rd</sup> quarter and are reflected in the 3<sup>rd</sup> Quarter Financial Report. Another \$18.8 million are due from the SWRCB as of March 31; \$5,982,776 was received in May. The remaining \$12,824,079 is expected to be received in August. A \$50 million line of credit was obtained on June 15 and will supplement cash flow while SCWD awaits reimbursement from SRF.

The expected reimbursements, line of credit and grants described above will help improve cash flow and cash reserves.

### Operating Expenses

Similar to the drop in revenues, operating expenses are trending 15% below the Adopted Budget. Personnel costs are down due to the unbudgeted 10% unpaid furlough and the eight currently vacant positions. The furlough ended on May 16 based on improving financial conditions in the City, including \$15 million federal economic relief to the City. The vacancy rate is approximately 7% of budgeted positions; the budget assumes no vacancies.

Significant operating expenses trending lower than the budget are as follows:

- Maintenance – Water Systems is under budget by \$403,000. The primary reason for the reduced expenditure in FY 21 is due to the delay of the CEQA work relating to the Habitat Conservation Plan (HCP). This \$500,000 contract work is expected to commence in FY 22 and is required by Section 10 of the federal Endangered Species Act.
- Electricity is under budget by \$224,000. The reduction in electricity use corresponds to the installation of solar panels at the Graham Hill Water Treatment Plant and the Bay Street water tanks during the past several years. The FY 2022 budget for electricity has

been reduced by \$100,000 compared to the FY 2021 budget. Professional services costs have been reduced by \$464,000 for legal services, engineering, and other technical services. The reduction of outside services can be attributed to the COVID-19-related reduction in revenues, which reduces funds available for outside services.

- Governmental Fees are under budget by \$101,000. These fees are related to licensing for the Newell Creek Dam, San Lorenzo River and the water utility. Largest fees are paid to the SWRCB and the United States Geological Survey. Large fees are expected to be paid in the 4<sup>th</sup> quarter.

These fees are paid from the Services, Supplies and Other line items.

### CIP Budget

#### CIP Highlights

Overall \$13.7M was spent on CIP work in the 3<sup>rd</sup> Quarter. The bulk of that work was \$8.3M for the Newell Creek Dam Inlet/Outlet Replacement and \$1.5M to finish the Coast Pump Station 20-inch Raw Water Pipeline Replacement. As construction starts soon on the GHWTP Entrance Improvements, GHWTP Concrete Tanks Replacement, and Laguna Creek Diversion Retrofit, we should expect mobilization costs to be a significant expense in the 4<sup>th</sup> Quarter of FY2021 and 1<sup>st</sup> Quarter of FY2022.

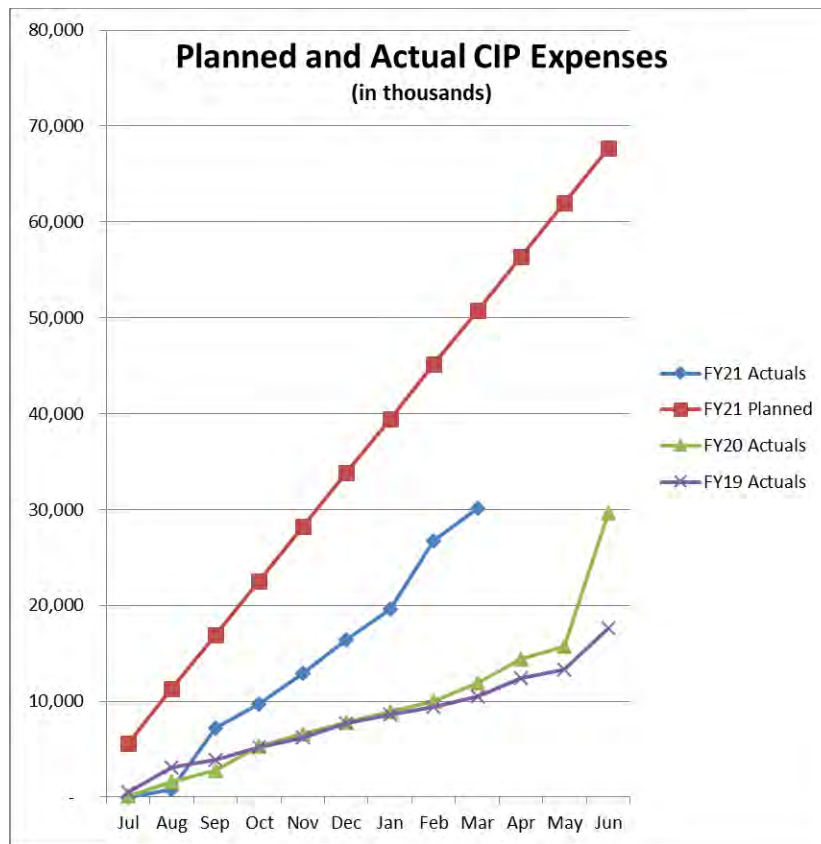
Use of the Water Program’s Reserve began in FY2021 with the first transfer occurring in the 2<sup>nd</sup> Quarter. Below are the transfers that occurred in the 3<sup>rd</sup> Quarter. Such information will continue to be reported in these financial reports.

Reporting Period	Project	Description of Change	Change Amount	City Budget Balance (Current FY)	Management Reserve Balance	BA date
3rd Qtr FY21	Graham Hill WTP Facility Improvement	Added Design-Build legal services for bid & contract docs	250,000	4,869,000	49,400,000	2/8/21
3rd Qtr FY21	Graham Hill WTP Concrete Tanks Project	Design changes per Amendment 4 with West Yost	98,000	4,771,000	49,302,000	2/8/21
3rd Qtr FY21	Newell Creek Pipeline Rehab/Replacement	Environmental CEQA - increased scope for Dudek	200,000	4,571,000	49,102,000	2/8/21
3rd Qtr FY21	Coast Pump Station Raw Water Pipeline Replacement	Kleinfelder additional engineering support for differing site conditions	57,600	4,513,400	49,044,400	2/8/21
3rd Qtr FY21	HDR Program Management Contract	Scope additions per amendment 2020-1.1	259,771	4,253,629	48,784,629	2/8/21
3rd Qtr FY21	Brackney Landslide Area Pipeline Risk Reduction	Design contract bids higher than estimated	382,373	3,871,256	48,402,256	2/8/21
3rd Qtr FY21	Laguna Creek Diversion Retrofit	Updated estimates from 95% design completed	574,000	3,297,256	47,828,256	2/16/21
3rd Qtr FY21	GHWTP Entrance Improvements	Updated estimates from design completed	115,000	3,182,256	47,713,256	2/16/21

The Total Budget at Completion amounts were updated as a result of the FY2022 budget planning work completed. The largest changes in the totals were reported in the budget item staff report in the Water Commission’s May 3, 2021 packet. Only two other changes were made to the report since the 2<sup>nd</sup> Quarter report, 1) River Bank Filtration was moved from the Water Supply

category to the Surface Water Treatment category, and 2) the Newell Creek Access Rd Bridge was removed from the report now that the work is complete and no expenses were made in the current fiscal year.

During the FY2022 budget planning, the spending estimates for FY2021 were also updated. Below is an updated chart showing the planned expenses against actuals. We remain below planned expenses by nearly \$20M; however, as stated above, upcoming mobilization costs and fiscal year-end invoices will likely bring actual expenses closer to planned expenditures. This is similar to what was experienced in FY2020 and FY2019.



FISCAL IMPACT: None.

PROPOSED MOTION: Motion to accept the FY 2021 3rd Quarter Unaudited Financial Report.

ATTACHMENTS:

1. Santa Cruz Water Department Financial Report

**SANTA CRUZ WATER DEPARTMENT FINANCIAL REPORT**

Fiscal Year 2020/21 through March 31, 2021

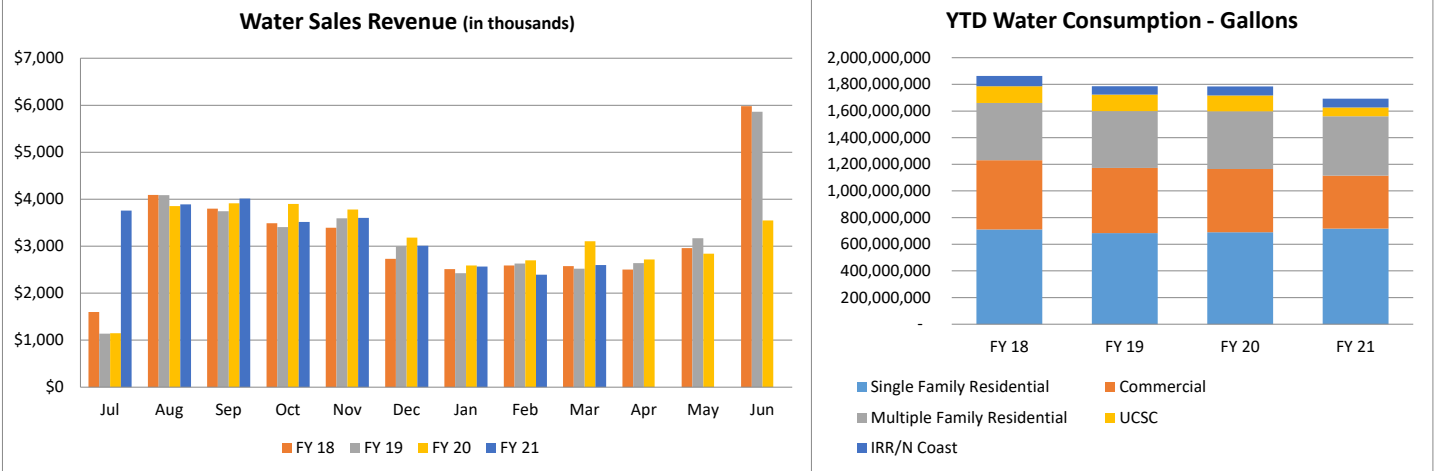
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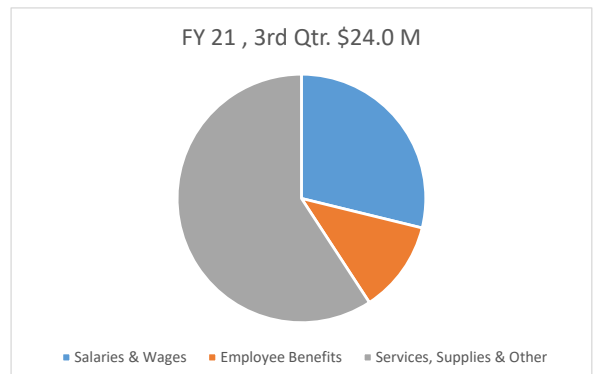
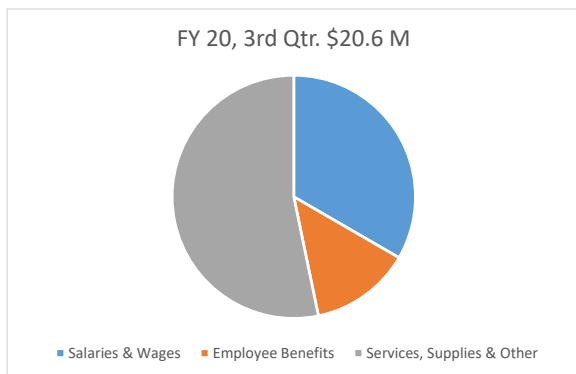
**Financial Summary**

	FY 2021 Adjusted Budget	YTD Budget	Actual	Actual vs. YTD Budget	
				Variance \$ +/-	Variance % +/-
<b>Operating Revenues</b>					
Water Sales	39,878,296	29,908,722	26,858,567	(3,050,155)	(10%)
Other Charges for Services	1,364,861	1,023,646	1,047,426	23,780	2%
Other Revenues	337,733	253,300	164,874	(88,426)	(35%)
Grants	371,595	278,696	-	(278,696)	(100%)
Investment Earnings	227,511	170,633	65,275	(105,357)	(62%)
<b>Total Operating Revenues</b>	<b>42,179,996</b>	<b>31,634,996</b>	<b>28,136,143</b>	<b>(3,498,854)</b>	<b>(11%)</b>
<b>Operating Expenses</b>					
Salaries & Wages	11,420,256	8,565,192	6,905,848	(1,659,344)	(19%)
Employee Benefits	4,530,286	3,397,715	2,869,172	(528,543)	(16%)
Services and Supplies	18,336,395	13,401,041	9,254,115	(4,146,926)	(31%)
Capital Outlay	573,335	430,001	2,441,429	2,011,427	468%
Debt Service - Principal & Interest	3,458,545	2,488,289	2,488,289	-	0%
<b>Total Operating Expenses</b>	<b>38,318,817</b>	<b>28,282,237</b>	<b>23,958,852</b>	<b>(4,323,386)</b>	<b>(15%)</b>
<b>Net Operating Revenue (Loss)</b>	<b>3,861,179</b>	<b>3,352,759</b>	<b>4,177,291</b>	<b>824,532</b>	<b>25%</b>
Debt Service Coverage (Target >= 1.50x)	2.12x	2.35x	2.68x		

**Revenues**



**Expenses**



**Cash**

Fund Balances	YTD Balance	Year End Target Balance
711 - Enterprise Operations	(17,740,716)	9,465,752
713 - Rate Stabilization	10,444,299	10,000,000
715 - System Development Charges	4,199,437	4,199,437
716 - 90 Day Operating Reserve	6,892,003	9,465,752
717 - Emergency Reserve	3,330,595	3,100,000
718 - Mount Herman June Beetle Endowment	145,041	144,000
719 - Equipment Replacement	717,855	700,000
<b>Total</b>	<b>7,988,513</b>	<b>37,074,941</b>
Days' Cash (Includes only Funds 711 & 716)	(124)	180
Days' Cash Target	180	180

CIP Summary: 3rd Qtr Fiscal Year 2021	Total Project Budget at Completion (escalated dollars)	Prior Expenditures thru 6/30/20	Current FY Actuals thru 3/31/21	Remaining Budget	Current Status
Project Titles					
<b>WATER SUPPLY RESILIENCY &amp; CLIMATE ADAPTATION PROJECTS</b>					
<i>Water Supply Augmentation Strategy</i>					
<b>Beltz Wellfield Aquifer Storage and Recovery</b>					
ASR Planning	3,950,000	2,623,131	156,735	1,170,134	Planning
ASR Mid County Existing Infrastructure	2,360,000	-	16,461	2,343,539	Planning
ASR Mid County New Wells	22,410,000	-	-	22,410,000	Not Initiated
<b>Santa Margarita Aquifer Storage and Recovery and In Lieu Water Transfers and Exchanges</b>					
ASR Santa Margarita Groundwater	21,750,000	-	-	21,750,000	Not Initiated
ASR New Pipelines	42,320,000	-	-	42,320,000	Not Initiated
In Lieu Transfers and Exchanges	-	-	-	-	Planning
<b>Studies, Recycled Water, Climate Change, Aquifer Storage and Recovery</b>					
Water Supply Augmentation	1,340,000	383,615	128,355	828,030	PD/Feasibility
Recycled Water Feasibility Study	1,010,000	636,469	78,158	295,374	Planning
<i>Subtotal Water Supply Augmentation Strategy</i>	<b>95,140,000</b>	<b>3,643,215</b>	<b>379,709</b>	<b>91,117,076</b>	
<i>Subtotal Water Supply Resiliency and Climate Adaptation Projects</i>	<b>95,140,000</b>	<b>3,643,215</b>	<b>379,709</b>	<b>91,117,076</b>	
<b>INFRASTRUCTURE RESILIENCY AND CLIMATE ADAPTATION</b>					
<i>Raw Water Storage Projects</i>					
NCD I/O Replacement Project	109,570,000	18,331,907	19,476,613	71,761,481	Construction
Aerators at Loch Lomond	640,000	93,336	7	546,657	Construction
<i>Subtotal Raw Water Storage Projects</i>	<b>110,210,000</b>	<b>18,425,243</b>	<b>19,476,619</b>	<b>72,308,138</b>	
<i>Raw Water Diversion and Groundwater System Projects</i>					
Laguna Creek Diversion Retrofit	3,810,000	677,750	348,650	2,783,600	Construction
North Coast System Majors Diversion Retrofit	5,330,000	163,187	-	5,166,813	PD/Feasibility
Tait Diversion Retrofit	6,630,000	205,004	14,047	6,410,949	Planning
Coast Pump Station Rehab/Replacement	10,370,000	-	-	10,370,000	PD/Feasibility
Beltz 10 and 11 Rehab & Development	360,000	186,922	892	172,186	Planning
Felton Diversion Pump Station Improvements	4,270,000	167,685	2,848	4,099,467	Planning
Beltz WTP Filter Rehabilitation	450,000	-	43,831	406,169	Construction
<i>Subtotal Raw Water Diversion and Groundwater System Projects</i>	<b>31,220,000</b>	<b>1,400,548</b>	<b>410,268</b>	<b>29,409,184</b>	
<i>Raw Water Transmission</i>					
Coast Pump Station 20-inch RW Pipeline Replacement	7,140,000	2,658,858	3,984,658	496,484	Post-Construction
Newell Creek Pipeline Rehab/Replacement	1,680,000	812,525	128,862	738,612	Design
Newell Creek Pipeline Felton/GHWTP	30,650,000	-	333,881	30,316,119	Design
Newell Creek Pipeline Felton/Loch Lomond	40,730,000	-	-	40,730,000	Not Initiated
Brackney Landslide Area Pipeline Risk Reduction	5,870,000	66,511	178,753	5,624,736	Design
North Coast Pipeline Repair/Replacement - Planning	640,000	195,119	147,315	297,565	Planning
North Coast Pipeline Repair/Replacement - Ph 4	20,140,000	-	-	20,140,000	Not Initiated
North Coast Pipeline Repair/Replacement - Ph 5	20,870,000	-	-	20,870,000	Not Initiated
<i>Subtotal Raw Water Transmission</i>	<b>127,720,000</b>	<b>3,733,014</b>	<b>4,773,469</b>	<b>119,213,518</b>	
<i>Surface Water Treatment</i>					
GHWTP Tube Settler Replacement	1,630,000	1,309,865	942	319,193	Post Construction
GHWTP Flocculator Rehab/Replacement	1,980,000	278,611	866,964	834,426	Post Construction
GHWTP Concrete Tanks Replacement	46,210,000	5,161,044	603,962	40,444,994	Construction
GHWTP Facilities Improvement Project	146,170,000	4,245,433	664,797	141,259,770	Design
River Bank Filtration Study	7,390,000	705,682	170,559	6,513,758	Planning
<i>Subtotal Surface Water Treatment</i>	<b>203,380,000</b>	<b>11,700,635</b>	<b>2,307,224</b>	<b>189,372,141</b>	
<i>Distribution System Storage, Water Main and Pressure Regulation, and Metering Projects</i>					
University Tank No. 4 Rehab/Replacement	6,320,000	114,728	28,900	6,176,372	Planning
University Tank No. 5 Rehab/Replacement	3,960,000	4,061,397	120,000	(221,397)	Post Construction
Pressure Regulating Stations	190,000	171,697	1,995	16,308	Post Construction
Meter Replacement Project	13,710,000	913,729	473,440	12,322,832	Construction
Engineering and Distribution Main Replacement Projects	35,050,000	5,770,690	50,089	29,229,222	Ongoing
Distribution System Water Quality Improvements	90,000	17,538	165	72,297	Planning
Facility & Infrastructure Improvements	7,890,000	-	-	7,890,000	Ongoing
<i>Subtotal Distribution Storage, Wmain Pressure Reg, and Metering</i>	<b>67,210,000</b>	<b>11,049,778</b>	<b>674,589</b>	<b>55,485,633</b>	
<i>Subtotal Infrastructure Resiliency and Climate Adaptation</i>	<b>539,740,000</b>	<b>46,309,218</b>	<b>27,642,168</b>	<b>465,788,614</b>	
<b>OTHER RISK MANAGEMENT AND RISK REDUCTION PROJECTS</b>					
<i>Site Safety and Security</i>					
Security Camera & Building Access Upgrades	550,000	209,991	65,808	274,202	Construction
Water Quality Lab Upgrades	540,000	-	465,270	74,730	Post Constr
GHWTP Gate Entrance Upgrades	465,000	-	80,059	384,941	Construction
<i>Subtotal Site Safety and Security</i>	<b>1,555,000</b>	<b>209,991</b>	<b>611,137</b>	<b>733,872</b>	
<i>Staff Augmentation</i>					
Water Program Administration <sup>(1)</sup>	23,850,000	-	1,490,184	22,359,816	Ongoing
<i>Subtotal Staff Augmentation</i>	<b>23,850,000</b>	<b>-</b>	<b>1,490,184</b>	<b>22,359,816</b>	
<i>Contingency</i>					
Management Reserve <sup>(2)</sup>	47,710,000	-	-	47,710,000	Ongoing
<i>Subtotal Contingency</i>	<b>47,710,000</b>	<b>-</b>	<b>-</b>	<b>47,710,000</b>	
<i>Storage for Emergency Facility and System Repair Tools and Equipment</i>					
Bay Street Reservoir Storage Building	150,000	-	-	150,000	Design
Union/Locust Admin Building Back Up Power Generator	50,000	-	-	50,000	Design
<i>Subtotal Storage for Emergency and System Repair</i>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>200,000</b>	
<i>Subtotal Other Risk Management and Risk Reduction Projects</i>	<b>73,315,000</b>	<b>209,991</b>	<b>2,101,321</b>	<b>71,003,688</b>	
<b>GRAND TOTAL</b>	<b>708,195,000</b>	<b>50,162,424</b>	<b>30,123,198</b>	<b>627,909,378</b>	

<sup>(1)</sup> Staff augmentation costs are transferred to specific projects during year-end process.

<sup>(2)</sup> Management Reserve budget will decrease rather than showing actual expenses.



WATER COMMISSION  
INFORMATION REPORT

DATE: 7/8/2021

AGENDA OF: July 12, 2021

TO: Water Commission

FROM: Sarah Easley Perez, Principal Planner

SUBJECT: Santa Cruz Water Rights Project: Draft Environmental Impact Report Release

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**RECOMMENDATION:** That the Water Commission receive information on the release of the Draft Environmental Impact Report for the Santa Cruz Water Rights Project.

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**BACKGROUND:** The Water Department is proposing to modify our existing appropriative water rights to improve flexibility in the operation of the City's water system while enhancing stream flows for local anadromous fisheries. These proposed modifications would be achieved through action from the Santa Cruz City Council and the California State Water Resources Control Board (SWRCB). Compliance with the California Environmental Quality Act (CEQA) through the development of an Environmental Impact Report (EIR) is required for these actions.

To initiate the CEQA process, Santa Cruz Water Department, as lead agency, released an Initial Study and Notice of Preparation of an EIR for the Santa Cruz Water Rights Project in October 2018, initiating a 30-day public review and scoping period. Two public meetings were held during the public review period, one in Santa Cruz and one in Ben Lomond.

Since 2018, the project team has been working to refine the proposed water rights modifications project description and to develop the Draft EIR. Engagement with neighboring water districts (Soquel Creek Water District, San Lorenzo Valley Water District, Scotts Valley Water District, and Central Water District) during the development of the EIR has been ongoing since 2019. Coordination with SWRCB is also ongoing with public noticing of City's water rights petitions in early 2021 that resulted in two protests to which the City has provided initial responses by letter. Noticing of the petitions during development of the Draft EIR allowed for opportunity for the Draft EIR to address issues raised in the protests.

**DISCUSSION:** The Santa Cruz Water Rights Project Draft EIR was released for a 45-day public review period on June 10, extending through July 26, 2021. Per the requirements of CEQA, a Notice of Availability of a Draft Environmental Impact Report (NOA) was prepared (attachment 1) and distributed describing the proposed project, Draft EIR, and how to review and comment

on the Draft EIR. The NOA was filed with the Santa Cruz County Clerk and submitted to the Governor's Office of Planning and Research, State Clearinghouse. The NOA, Draft EIR, and other required submittals have been posted on CEQAnet, the online database for the State Clearinghouse. The Draft EIR is also available online on the Water Department's website and Santa Cruz Public Library's website. Paper copies of the Draft EIR are available at the Water Department Engineering Counter, by appointment, and at local library branches.

An extensive notification and outreach program was developed to get the word out about the Santa Cruz Water Rights Project to encourage the public to review and comment on the Draft EIR. The NOA was run two times each in the Santa Cruz Sentinel (on June 13 and July 11) and in the Press Banner (on June 11 and July 9). Additionally, the NOA was posted at the City bulletin boards on Church Street and at the Planning Department, and at project component sites (Beltz Wells, Felton Diversion, and Tait Diversion). The NOA was also mailed to agencies, interested parties, and to over 3,000 residents in areas near project components. Additional outreach included a press release, multiple postings on social media including Facebook and Next Door, and a radio interview with the Water Director, Rosemary Menard, on the KSCO morning show on June 10.

Two virtual public information meetings regarding the Santa Cruz Water Rights Project and Draft EIR are planned to be held on July 14 and July 20. The content provided at both meetings will be the same. During the meetings, an overview of the project and CEQA process will be provided and there will also be an opportunity to ask questions about the CEQA review process. The meetings have been advertised through an ad placed in Good Times on July 7 and the Sentinel on July 7. Additional promotion of the public meetings included posting on the City's calendar and all City and Water Department social media channels.

Finally, a Community Guide to the Santa Cruz Water Rights Project was prepared in both English and Spanish (attachments 2 and 3) for release concurrent with the Draft EIR. The Community Guide provides an overview of the project, describes project benefits, and presents a summary of the CEQA process. The final page of the Community Guide is an insert that describes the Draft EIR public review period, public meetings, and how to comment. By removing this page, the Community Guide can continue to be distributed and used after the close of the public review period. The Community Guide has been posted on the City's website under both the project webpage (<https://www.cityofsantacruz.com/government/city-departments/water/water-rights-4231>), and on the project environmental documents webpage (<https://www.cityofsantacruz.com/Home/Components/BusinessDirectory/BusinessDirectory/126/2089>).

Following the close of the Draft EIR public review period on July 26, responses will be prepared for all timely written comments received that raise significant environmental concerns. The Final EIR will be prepared to include written responses to comments in accordance with CEQA requirements and will also include any text changes to Draft EIR necessary after consideration of public comments. The Final EIR is planned to be presented to the Santa Cruz City Council for a final decision on the Proposed Project in early 2022. Prior to making a decision to approve a project, the City Council must certify that it has reviewed and considered the information in the EIR, that the EIR has been completed in conformity with the requirements of CEQA, and that the document reflects the City's independent judgment. The Final EIR is planned to be presented to



this Water Commission for review and recommendation in late 2021 prior to presentation to City Council.

FISCAL IMPACT: None.

PROPOSED MOTION: Motion to accept the information on the Release Draft Environmental Impact Report for the Santa Cruz Water Rights Project.

ATTACHMENTS:

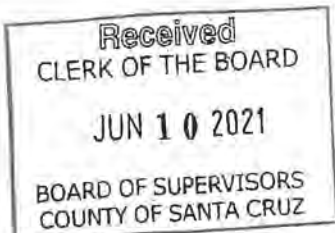
1. Notice of Availability of a Draft Environmental Impact Report for the Santa Cruz Water Rights Project
2. Community Guide: Santa Cruz Water Rights Project
3. Guia Comunitaria: Proyecto de Derechos de Agua de Santa Cruz

THIS NOTICE HAS BEEN POSTED AT THE CLERK OF THE BOARD OF SUPERVISORS OFFICE FOR A PERIOD COMMENCING 10/10/2021 AND ENDING 7/26/2021



**WATER DEPARTMENT**

212 Locust Street, Suite C, Santa Cruz, CA 95060 • 831-420-5200



**City of Santa Cruz Water Department  
NOTICE OF AVAILABILITY OF A DRAFT ENVIRONMENTAL IMPACT REPORT**

**PROJECT TITLE:** Santa Cruz Water Rights Project

The City of Santa Cruz as the Lead Agency has prepared a Draft Environmental Impact Report (EIR) for the Santa Cruz Water Rights Project (Proposed Project) pursuant to the California Environmental Quality Act.

**PROJECT LOCATION:** The Proposed Project is located within Santa Cruz County and is generally bounded by the unincorporated communities of Aptos and Le Selva Beach on the east, Bonny Doon Road on the west, Boulder Creek on the north, and the Pacific Ocean on the south.

**PROJECT DESCRIPTION:** The Proposed Project would improve flexibility in operation of the City's water system while enhancing stream flows for local anadromous fisheries. The Proposed Project includes components that are considered in the EIR at a "project" level (project components) and components that are considered at a "programmatic" level (programmatic components). The primary project and programmatic components of the Proposed Project include: (1) water rights modifications related to place of use, method of diversion, points of diversion and rediversion, underground storage and purpose of use, extension of time, and stream bypass requirements for fish habitats (referred to as Agreed Flows); (2) water supply augmentation components, including new aquifer storage and recovery (ASR) facilities at unidentified locations, Beltz ASR facilities at the existing Beltz well facilities, and water transfers and exchanges and intertie improvements; and (3) surface water diversion improvements, including the Felton Diversion fish passage improvements and the Tait Diversion and Coast Pump Station improvements.

**ENVIRONMENTAL EFFECTS:** The Draft EIR found that implementation of the Proposed Project may result in potentially significant environmental impacts related primarily to construction of the infrastructure components and include impacts in the following categories: biological resources; cultural resources and tribal cultural resources; geology and soils; hazards, hazardous materials, and wildfire; hydrology and water quality; land use, agriculture and forestry, and mineral resources; noise and vibration; and utilities and energy, which would be reduced to less than significant with mitigation measures identified in the EIR in most cases. The Draft EIR found that implementation of the Proposed Project may result in significant and unavoidable impacts related to noise and utilities associated with temporary ASR well-drilling during the construction of these facilities.

**PUBLIC INFORMATION MEETINGS:** Two public information meetings regarding the Proposed Project and Draft EIR will be held, and the content provided at both meetings will be the same.

- **Wednesday, July 14, 2021 from 5:00 - 6:00 PM.**
- **Tuesday, July 20, 2021 from 6:00 - 7:00 PM.**

Meeting log-in information can be found at the project website:

<https://www.cityofsantacruz.com/government/city-departments/water/water-rights-4231>



**WATER DEPARTMENT**

212 Locust Street, Suite C, Santa Cruz, CA 95060 • 831-420-5200

There will be an opportunity to ask questions about the CEQA review process at the end of each meeting. Written comments on the Draft EIR can be submitted (see instructions below).

**REVIEW AND COMMENT:** The 45-day public review period for the Draft EIR is June 10, 2021 through July 26, 2021.

Comments on the Draft EIR must be received in writing by email or mail to the contact listed below by 5:00 PM on July 26, 2021. **Please include a return address and contact name.**

**Sarah Easley Perez, Principal Planner  
City of Santa Cruz Water Department  
212 Locust Street, Suite C  
Santa Cruz, CA 95060  
[seasleyperetz@cityofsantacruz.com](mailto:seasleyperetz@cityofsantacruz.com)**

Online review of the Draft EIR is encouraged. The Draft EIR and information on how to comment are available for review online at: <http://www.cityofsantacruz.com/waterenvdocs> and at the Santa Cruz Public Library at: <https://catalog.santacruzpl.org/polaris/>.

A printed copy of the Draft EIR may be reviewed at the City of Santa Cruz Water Department Engineering Counter (212 Locust Street, Suite C in Santa Cruz) by appointment. Please email [waterengineering@cityofsantacruz.com](mailto:waterengineering@cityofsantacruz.com) or call (831) 420-5210 to schedule an appointment.

A hard copy of the Draft EIR is also available at the libraries below; check with <https://www.santacruzpl.org/> or call 831.427.7713 for library hours and document access information:

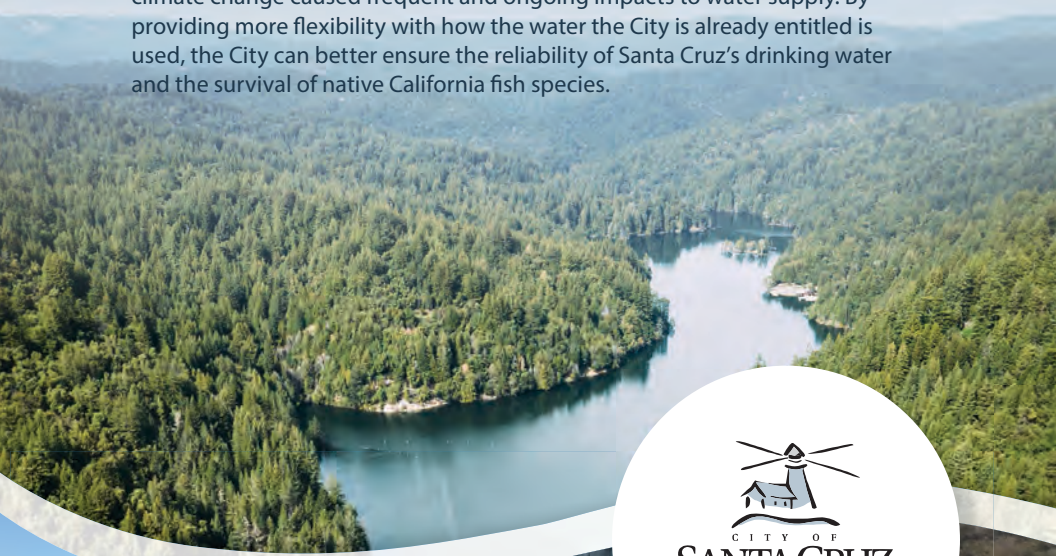
- Downtown, located at 224 Church Street, in Santa Cruz
- Aptos, located at 7696 Soquel Drive, in Aptos
- Boulder Creek, located at 13390 W. Park Avenue, in Boulder Creek
- Felton, located at 6121 Gushee Street, in Felton
- Capitola, located at 2005 Wharf Road, in Capitola
- La Selva Beach, located at 316 Estrella Avenue, in La Selva Beach
- Live Oak, located at 2380 Portola Drive, in Santa Cruz
- Scotts Valley, located at 251 Kings Village Road, in Scotts Valley

# Community Guide

## Santa Cruz Water Rights Project

**Ninety-five percent of City of Santa Cruz drinking water** comes from surface sources like rivers and creeks, with the remaining five percent from local groundwater. Surface water resources are overseen by the State of California Water Resources Control Board and its use is governed by legally-enforceable rules called “water rights.”

The City’s water rights were granted over 50 years ago. Long before coho salmon and steelhead trout became “special status species”, and before climate change caused frequent and ongoing impacts to water supply. By providing more flexibility with how the water the City is already entitled is used, the City can better ensure the reliability of Santa Cruz’s drinking water and the survival of native California fish species.





# What is the Santa Cruz Water Rights Project (SCWRP)?

The City is working with the State Water Resources Control Board to revise the decades-old rights to allow more options for where and how the City can use its existing appropriative water rights. The SCWRP would improve flexibility in operation of the City's water system while enhancing stream flows for local anadromous fisheries. The primary project and programmatic components of the SCWRP include:

- 1** water rights modifications related to place of use, method of diversion, points of diversion and redirection, underground storage and purpose of use, extension of time, and stream bypass requirements for fish habitats;
- 2** water supply augmentation components, including new aquifer storage and recovery (ASR) facilities at unidentified locations, Beltz ASR facilities at the existing Beltz well facilities, and water transfers and exchanges and intertie improvements; and
- 3** surface water diversion improvements, including the Felton Diversion fish passage improvements and the Tait Diversion and Coast Pump Station improvements.

## Project Benefits

### System Flexibility and Regional Collaboration

Current water rights allow Santa Cruz to only use its water within service area boundaries established when the rights were issued decades ago. This prevents the City from implementing water supply solutions like sharing available winter water with other regional water agencies, storing available water in regional aquifers, and diverting available water to where it can be used most efficiently.

With more flexibility, the City can participate in regional solutions that build regional resilience, ensure better local supply reliability, help replenish depleted groundwater basins, and maximize available water.

### Help Support Threatened Native Fish Species

Most California water rights were granted without consideration for the impacts of diversions on native fish species and before native fish species were under stress, and therefore don't require water utilities to accommodate surface flows that support fish and their habitats. Because of the scarcity of water in parts of California, including Santa Cruz, some important fish species have become threatened or endangered.

In Santa Cruz, we share the watershed with endangered coho salmon and threatened steelhead trout. We are stewards of habitat that is critical to the survival of both humans and fish. Santa Cruz has voluntarily agreed to flow releases specifically designed to support special status species and to integrating these flows into our water rights as we're making other changes. This will codify the community's commitment to sharing water resources with fish.

# Additional Benefits



- **Improve the flexibility with which the City operates the water system** so the community's drinking water needs can be met while providing flow conditions that are protective of coho salmon and steelhead.
- **Provide protective flow conditions for coho salmon and steelhead within all streams** from which the City diverts water, as agreed to with state and federal regulators.
- **Support improvements to the City's limited water storage** through passive recharge of regional aquifers (via water transfers and/or exchanges), and active recharge of regional aquifers (via aquifer storage and recovery (ASR), including allowing for underground storage of treated surface water in groundwater basins for use as water supply and to protect the Santa Cruz Mid-County Groundwater Basin from seawater intrusion.
- **Remove potential operational constraints** on the City's existing diversions.
- **Allow additional time for the City to fully reach beneficial use** under existing water-right permits at Felton.
- **Improve fish screening at Felton and Tait Diversions**, and improve fish passage at the Felton Diversion.
- **Address reliability and operational deficits** at Tait Diversion and the Coast Pump Station.
- **Implement state policy favoring integrated regional water management** by involving the City and other local agencies in significantly improving the reliability of water supplies by diversifying water portfolios, taking advantage of local and regional opportunities, and considering a broad variety of water management strategies.

## What the Project Will Not Do

Proposed changes to Santa Cruz's water rights will not change the authorized amounts of water that the City can take from local sources. The changes would simply allow the City to be more flexible with the water that it currently has rights to use.

# Environmental Review

Under the requirements of the California Environmental Quality Act (CEQA), the City has prepared a Draft Environmental Impact Report (EIR) for the proposed water rights changes and released it for a 45-day public review period. A Draft EIR is an informational document used to inform the general public and public agency decision makers about the project. It includes a detailed description of the proposed project, an analysis of potential impacts of the proposed project, and proposed mitigation measures to reduce impacts that can't be avoided. Other topics covered in the Draft EIR include an analysis of alternatives to the proposed project, an analysis of cumulative impacts of the proposed project in relationship with other past, present, or reasonably foreseeable future projects, and a discussion of the proposed project in the context of climate change.

Following the close of the public comment period on the Draft EIR, responses will be prepared for all timely comments received that raise significant environmental issues regarding the Proposed Project. The Final EIR will include written responses to such comments and will also include any text changes to Draft EIR that become necessary after consideration of public comments.

## Timeline

### November 2018

- City releases CEQA Initial Study and Notice of Preparation of a Draft EIR issued for a 30-day public scoping period.
- Two public meetings held in Santa Cruz and Ben Lomond.

### January 2021

- City submits final water rights change petitions to the State Water Resources Control Board (SWRCB).

### February 2021

- WRCB publicly notices water rights change petitions for a 30 day public review period.

### June – July 2021

- City releases Draft EIR for 45-day public review period.
- Two online public meetings to be held.

### December 2021

- City to prepare Final EIR.
- Santa Cruz City Council to consider certification of Final EIR and project approval at a public City Council meeting.

### 2022

- Expected action by SWRCB on change petitions.

# Public Review and Comment

The 45-day public review period for the Draft EIR is **June 10, 2021, through July 26, 2021**. Comments on the Draft EIR must be received in writing by email or mail to the contact listed below by 5 PM on July 26, 2021. Please include a return address and contact name.

**Sarah Easley Perez, Principal Planner**  
City of Santa Cruz Water Department  
212 Locust Street, Suite C  
Santa Cruz, CA 95060  
[seasleyperetz@cityofsantacruz.com](mailto:seasleyperetz@cityofsantacruz.com)



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Online review of the Draft EIR is encouraged. The Draft EIR and Notice of Availability, including information on how to comment, are available for review online at: **[cityofsantacruz.com/waterenvdocs](http://cityofsantacruz.com/waterenvdocs)**

and at the Santa Cruz Public Library at:  
**[catalog.santacruzpl.org/polaris](http://catalog.santacruzpl.org/polaris)**

Copies of the documents are also available at local libraries and by appointment at the Santa Cruz Water Department engineering counter.

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Two public information meetings regarding the Proposed Project and Draft EIR will be held. The content provided at both meetings will be the same.

**July 14 5–6pm**  
**Wednesday**

**OR**

**July 20 6–7pm**  
**Tuesday**

Meeting log-in information can be found at the project website:  
**[cityofsantacruz.com/SCWRP](http://cityofsantacruz.com/SCWRP)**

There will be an opportunity to ask questions about the CEQA review process at the end of each meeting.

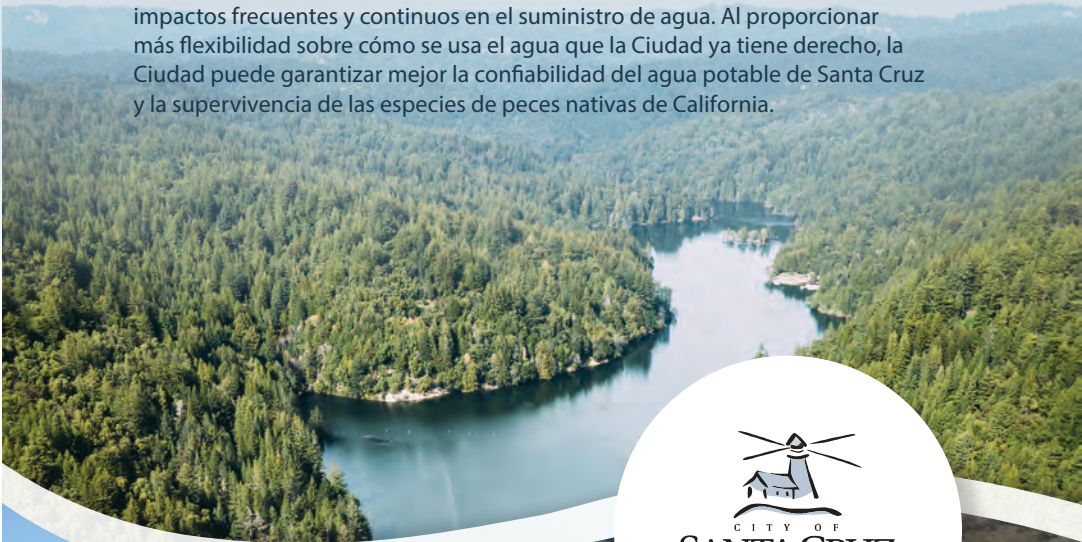


# Guia Comunitaria

## Proyecto de Derechos de Agua de Santa Cruz

**El noventa y cinco por ciento del agua potable** de la ciudad de Santa Cruz proviene de fuentes superficiales como ríos y arroyos, y el cinco por ciento restante del agua subterránea local. Los recursos hídricos superficiales son supervisados por State of California Water Resources Control Board a y su uso se rige por reglas legalmente exigibles llamadas “derechos de agua”.

Los derechos de agua de la Ciudad se otorgaron hace más de 50 años. Mucho antes de que el salmón coho y la trucha arco iris se convirtieran en “especies de estatus especial” y antes de que el cambio climático causara impactos frecuentes y continuos en el suministro de agua. Al proporcionar más flexibilidad sobre cómo se usa el agua que la Ciudad ya tiene derecho, la Ciudad puede garantizar mejor la confiabilidad del agua potable de Santa Cruz y la supervivencia de las especies de peces nativos de California.



# ¿Qué es el Proyecto de Derechos de Agua de Santa Cruz (SCCWRP)?

La Ciudad está trabajando con la State Water Resources Control Board para revisar los derechos de hace décadas para permitir más opciones sobre dónde y cómo la Ciudad puede usar sus derechos de agua apropiados existentes. El SCCWRP mejoraría la flexibilidad en la operación del sistema de agua de la ciudad mientras mejora los caudales de los arroyos para las pesquerías anádromas locales. El proyecto principal y los componentes programáticos del SCCWRP incluyen:

- 1** modificaciones a los derechos de agua relacionadas con el lugar de uso, método de desvío, puntos de desvío y desvío, almacenamiento subterráneo y propósito de uso, extensión del tiempo y requisitos de desvío de arroyos para hábitats de peces;
- 2** componentes de aumento de suministro de agua, incluidas nuevas instalaciones de almacenamiento y recuperación de acuíferos (ASR) en ubicaciones no identificadas, instalaciones de Beltz ASR en las instalaciones de pozos de Beltz existentes, y transferencias e intercambios de agua y mejoras de inercia; y
- 3** mejoras en el desvío de aguas superficiales, incluidas las mejoras en el paso de peces Felton Diversion y las mejoras en Tait Diversion y Coast Pump Station.

## Beneficios del Proyecto

### Flexibilidad del sistema y colaboración regional

Los derechos de agua actuales permiten a Santa Cruz usar su agua solo dentro de los límites del área de servicio establecidos cuando los derechos se emitieron hace décadas. Esto evita que la Ciudad implemente soluciones de suministro de agua, como compartir el agua disponible en invierno con otras agencias regionales de agua, almacenar el agua disponible en los acuíferos regionales y desviar el agua disponible hacia donde se puede usar de manera más eficiente.

Con más flexibilidad, la Ciudad puede participar en soluciones regionales que fomentan la resiliencia regional, garantizan una mejor confiabilidad del suministro local, ayudan a reponer las cuencas de agua subterránea agotadas y maximizan el agua disponible.

### Ayude a Mantener Especies de Peces Nativas Amenazadas

La mayoría de los derechos de agua de California se otorgaron sin tener en cuenta los impactos de las desviaciones en las especies de peces nativos y antes de que las especies de peces nativos estuvieran bajo estrés y, por lo tanto, no requieren que los servicios de agua acomoden los flujos superficiales que sustentan a los peces y sus hábitats. Debido a la escasez de agua en partes de California, incluida Santa Cruz, algunas especies importantes de peces se han visto amenazadas o en peligro de extinción.

En Santa Cruz, compartimos la cuenca con el salmón coho en peligro de extinción y la trucha arco iris amenazada. Somos administradores del hábitat que es fundamental para la supervivencia tanto de los seres humanos como de los peces. Santa Cruz acordó voluntariamente liberar flujos específicamente diseñados para apoyar especies de estatus especial y para integrar estos flujos en nuestros derechos de agua mientras estamos haciendo otros cambios. Esto codificará el compromiso de la comunidad de compartir los recursos hídricos con los peces.

# Beneficios Adicionales



- **Mejorar la flexibilidad con la que la Ciudad opera el sistema de agua** para que se puedan satisfacer las necesidades de agua potable de la comunidad al tiempo que se brindan condiciones de flujo que protegen al salmón coho y la trucha arcoíris.
- **Proporcionar condiciones de flujo de protección para el salmón coho y la trucha arco iris** dentro de todos los arroyos de los que la ciudad desvía el agua, según lo acordado con los reguladores estatales y federales.
- **Apoyar las mejoras al almacenamiento limitado de agua de la ciudad** a través de la recarga pasiva de los acuíferos regionales (a través de transferencias y / o intercambios de agua) y la recarga activa de los acuíferos regionales (a través del almacenamiento y recuperación de acuíferos (ASR), lo que incluye el almacenamiento subterráneo de agua superficial tratada en cuencas de agua subterránea para su uso como suministro de agua y para proteger la cuenca de agua subterránea del centro del condado de Santa Cruz de la intrusión de agua de mar.
- **Eliminar las posibles limitaciones operativas** de los desvíos existentes de la ciudad.
- **Permitir tiempo adicional para que la Ciudad** alcance completamente el uso beneficioso bajo los permisos de derechos de agua existentes en Felton.
- **Mejorar la detección de peces en Felton y Tait Diversions**, y mejore el paso de peces en la Felton Diversion.
- **Abordar la confiabilidad y los déficits operativos** en Tait Diversion y Coast Pump Station.
- **Implementar políticas estatales que favorezcan la gestión regional integrada del agua** al involucrar a la Ciudad y otras agencias locales en la mejora significativa de la confiabilidad del suministro de agua mediante la diversificación de carteras de agua, aprovechando las oportunidades locales y regionales y considerando una amplia variedad de estrategias de gestión del agua.

## Lo Que no Hara el Proyecto

Los cambios propuestos a los derechos de agua de Santa Cruz no cambiarán las cantidades autorizadas de agua que la Ciudad puede tomar de fuentes locales. Los cambios simplemente permitirían a la Ciudad ser más flexible con el agua que actualmente tiene derecho a usar.

# Revisión Ambiental

Bajo los requisitos de la California Environmental Quality Act (CEQA), la Ciudad ha preparado un Draft Environmental Impact Report (EIR) para los cambios propuestos en los derechos de agua y lo ha publicado para un período de revisión pública de 45 días. Un Draft EIR es un documento informativo que se utiliza para informar al público en general y a los tomadores de decisiones de las agencias públicas sobre el proyecto. Incluye una descripción detallada del proyecto propuesto, un análisis de los impactos potenciales del proyecto propuesto y las medidas de mitigación propuestas para reducir los impactos que no se pueden evitar. Otros temas cubiertos en el Draft EIR incluyen un análisis de alternativas al proyecto propuesto, un análisis de impactos acumulativos del proyecto propuesto en relación con otros proyectos pasados, presentes o futuros razonablemente previsibles, y una discusión del proyecto propuesto en el contexto del cambio climático.

Después del cierre del período de comentarios públicos sobre el Draft EIR, se prepararán respuestas para todos los comentarios recibidos oportunos que planteen problemas ambientales importantes con respecto al Proyecto Propuesto. El Final EIR incluirá respuestas escritas a dichos comentarios y también incluirá cualquier cambio de texto al Draft EIR que sea necesario después de considerar los comentarios públicos.

## Línea de tiempo del proyecto

### Noviembre de 2018

- La ciudad publica el estudio inicial de la CEQA y el aviso de preparación de un Draft EIR emitido para un período de alcance público de 30 días.
- Dos reuniones públicas celebradas en Santa Cruz y Ben Lomond.

### Enero de 2021

- La ciudad presenta peticiones finales de cambio de derechos de agua a SWRCB.

### Febrero de 2021

- Avisos públicos de SWRCB, peticiones de cambio de derechos de agua para un período de revisión pública de 30 días.

### Junio - Julio 2021

- La ciudad publica el Draft EIR para el período de revisión pública de 45 días.
- Se realizarán dos reuniones públicas en línea.

### Diciembre de 2021

- Ciudad para preparar Final EIR.
- El Ayuntamiento de Santa Cruz considerará la certificación del EIR Final y la aprobación del proyecto en una reunión pública del Ayuntamiento.

### 2022

- Acción esperada por SWRCB sobre peticiones de cambio.

Foto por Morgan Bond

Santa Cruz Water Department  
212 Locust Street, Suite B, Santa Cruz, CA 95060  
(831) 420-5230 • (831) 420-5220

[cityofsantacruz.com/SCWRP](https://cityofsantacruz.com/SCWRP) 

# Revisión y Comentario Públicos

El período de revisión pública de 45 días para el Draft EIR es del **10 de junio de 2021 hasta el 26 de julio de 2021**. Los comentarios sobre el Draft EIR deben recibirse por escrito por correo electrónico o por correo postal al contacto que se indica a continuación antes de las 5 pm del 26 de julio de 2021. Incluya una dirección de remitente y un nombre de contacto.

**Sarah Easley Perez, Principal Planner**  
City of Santa Cruz Water Department  
212 Locust Street, Suite C  
Santa Cruz, CA 95060  
seasleyperetz@cityofsantacruz.com



Se recomienda la revisión en línea del Draft EIR. El Draft EIR y el Aviso de disponibilidad, incluida la información sobre cómo hacer comentarios, están disponibles para su revisión en línea en: **[cityofsantacruz.com/waterenvdocs](http://cityofsantacruz.com/waterenvdocs)**

y en la Biblioteca Pública de Santa Cruz en: **[catalog.santacruzpl.org/polaris](http://catalog.santacruzpl.org/polaris)**

Las copias de los documentos también están disponibles en las bibliotecas locales y con cita previa en el mostrador de ingeniería del Santa Cruz Water Department.

Se llevarán a cabo dos reuniones de información pública sobre el Proyecto Propuesto y el Draft EIR. El contenido proporcionado en ambas reuniones será el mismo.

**14 de julio 5–6pm** OR **20 de julio 6–7pm**  
**Miércoles** OR **Martes**

La información de inicio de sesión de la reunión se puede encontrar en el sitio web del proyecto: **[cityofsantacruz.com/SCWRP](http://cityofsantacruz.com/SCWRP)**

Habrà la oportunidad de hacer preguntas sobre el proceso de revisión de la CEQA al final de cada reunión.

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WATER COMMISSION  
INFORMATION REPORT

DATE: 7/1/2021

AGENDA OF: July 12, 2021

TO: Water Commission

FROM: Rosemary Menard, Water Director  
Eileen Cross, Community Relations Specialist

SUBJECT: Water Rate Structures – Feedback from Single-Family Residence  
Customer Panels on Rate Structure Approaches

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RECOMMENDATION: That the Water Commission receive information for use in considering rate structure alternatives to be presented during agenda item 6.

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BACKGROUND: Water Commissioners have been working with City staff on the development of a new rate structure that would be implemented over a five-year period beginning in FY 2023. At the Commission's May meeting, Commissioners received a summary report of feedback on proposed rate structures solicited from commercial and irrigation customers who participated in focus-group panels that were conducted by Raftelis. Commissioners directed City staff to work with Raftelis to conduct panels with single-family residential (SFR) customers to solicit similar feedback. Two SFR customer panels were subsequently held in June. Attachments 1 and 2 provide summaries from both customer panels.

DISCUSSION: The goal for providing additional feedback from SFR customers on proposed new rate structures is to ensure that a broad range of customer groups, uses, and concerns are represented for inclusion in the discussion about which rate structure alternatives to pursue.

Note, the presentation included packet for agenda item 6 includes the presentation for this agenda item.

FISCAL IMPACT: None at this time.

PROPOSED MOTION: Informational item only. No motion is needed.

ATTACHMENTS:

1. Summary of Residential Panel #1
2. Summary of Residential Panel #2



# MEMO

**To:** Eileen Cross, Kyle Peterson | Santa Cruz Water Department  
**From:** Melissa Elliott, Vice President of Communications and Marketing  
**Date:** June 21, 2021  
**Re:** Water Rate Study | Residential Customer Panel Feedback Summary | 6/8/21

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## **Overview:**

This memorandum documents discussions and feedback received from the Water Rate Study Residential Customer Panel hosted virtually on June 8, 2021.

## **Why do you think the City of Santa Cruz might need to change its water rate structure now?**

Participants responded in a variety of ways:

- They recognize that running a utility is expensive (even though a few panelists thought the services are quite inexpensive relative to what it costs).
- One participant voiced the opinion that “bills are quite tolerable.” He speculated that consumption charges and conservation were related to necessary changes to the rate structure. “When we conserve we use less water, bills are reduced, and there’s less revenue.”
- Another noted there is lots of infrastructure to invest in and improve, and said paying for those will require fundraising.
- Makeup of the residential customers might be changing and needs to adjust long-term. The potential that climate change/drought, etc., were factors was mentioned.
- We’re due. Historically rate structures and increases are planned in 5-year increments. The City added 1 year based on COVID. It’s good planning – to help folks know what to expect.

## **Who can walk me through your understanding of how the City of Santa Cruz charges for water service for residential customers?**

The group discussed and recognized that there are different tiers based on usage, but the units were uncertain. They understand that if you use less, the rate per amount you use is less, and when you use more the next tier is higher per unit. Panelists did not know how many tiers there are, guessing that there were three (this was expressed in terms of only seeing what their bill is, and that they’ve never gone beyond a specific tier).

A well-informed panelist conveyed his understanding that there are several components including a Ready-to-serve charge, consumption, other fees and taxes. He wondered why the City bills in ccf units instead of thousand gallons like his brother is billed in Pennsylvania.

## **The facilitator asked about the bill and probed on whether panelists looked at it carefully or just paid it each month.**

Responses were varied. At least two look at the chart and the comparison to a prior year. Others didn’t know other fees were volumetric, thinking they were also fixed.



**The city of Santa Cruz also charges an inside city rate and an outside city rate. Why do you think they do this?**

No one was certain, but one panelist suggested in-city pays lower cost because “they might pay different fees in different ways.”

Another thought the reason is “it costs more to run further pipes.” He suspects inside city folks will not notice a change to inside/outside city rates.

**The facilitator explained the City’s current rate structure and asked if this meets their current understanding of this rate structure.**

There was not a lot of discussion, but there was a question about why ready-to-serve differs based on meter size.

One panelist observed that the example customer (low water use) mirrors his water use and he thinks it is fair.

**What are your feelings about how fair and equitable the rate structure is for residential customers?**

There was discussion about usage of several example customers. One panelist wondered why she works hard to save water – “there’s not that much dollar savings for a lot of effort.” She will continue, however, because she has the view that working to save water is the right thing to do, and does not think she would use more if it were less expensive. She also voiced opposition to her usage being subsidized, saying, “I don’t want to make anyone else pay more, either.”

Another panelist agreed that he conserves based on his environmental ethic, but thought the tiers could be more punitive to higher water users.

Another thought that the current system, given the examples, is not fair and equitable to people using as little as they can.

The final comment suggested that the rate structure should be adjusted based on whether it is a wet or dry year. “In dry years, trying to disincentivize is good. In wet years, what does it matter?” He also noted there has been a drought surcharge in dry years, which makes sense to him.

**What are your feelings about the different types of charges in the current rate structure? Does it help you understand where your money goes? For example, is it helpful to know that a portion of the money you pay to the city goes toward an infrastructure reinvestment fee? Or do you tend to look at the bottom line number only?**

There was not a lot of discussion here, though one panelist thought the level of detail was “a little over the top,” and could be simplified. Another panelist appreciated the transparency of the level of detail provided. Yet another thought the bill was confusing and suggested it could be improved.

One panelist voiced that she did not understand – until it was explained in the session –the purpose of the Rate Stabilization Fee, but expressed that the city should be able to do this with reserves and with budgeting.

**How would you most prefer to be notified of upcoming rate structure changes? Email? Direct mail? Notice on the website? Some other form of communication? Would you like to hear about the changes in a letter format, or would diagrams and images be helpful in understanding the changes?**

Responses included:

- Important news section on the bill is a good place to find more info. The quarterly news bulletin is good, but on monthly bills would be good, as well.
- Send email with bold colors.
- Use doorhangers. Something that is different.
- Snail mail is better read than email, and I always look at the bill because I like to see the chart.
- One panelist admitted she doesn't look at "important notices" and was not sure about email. Suggested direct mail, newsletter (SCMU Review). She also observed it depends on what the City has to say; the severity of the change.
- Another suggested the City use all methods available. As people get information in different ways. She did not think the website would be enough on its own.
- One who receives e-delivery said he doesn't look at his bill so that would not be a place to provide him more information.
- One suggested a postcard sent via mail – some panelist heads were observed nodding.
- All agreed less text and more graphics would communicate more effectively.

**If the City added a feature to its website that allowed you to calculate your new water bill, how likely would you be to use it?**

Responses were mixed. Some thought it would be helpful and they would use it, but were unsure whether it would be widely used in community. One panelist noted that PG&E provides something similar and he thinks it is useful.

**How much does the cost of water factor into your household budget planning?**

Again, responses were mixed. One doesn't think about it because it is so similar each month, while another has friends/family who would be impacted by even a small rate increase.

**How far in advance would you like to know about a potential change to the rate structure?**

One panelist suggested that it depends on how much rates are changing. If small, being notified might not matter at all. Another thought that six months would be too long, as people could forget. She thought that 60 days seemed reasonable.

**Final comment:**

A panelist suggested it would be helpful if leaks were detected earlier instead of showing up as a higher subsequent month's bill. A representative from the City suggested signing up for WaterSmart, which could assist.





# MEMO

**To:** Eileen Cross, Kyle Peterson | Santa Cruz Water Department  
**From:** Melissa Elliott, Vice President of Communications and Marketing  
**Date:** June 28, 2021  
**Re:** Water Rate Study | Residential Customer Panel Feedback Summary | 6/22/21

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## Overview:

This memorandum documents discussions and feedback received from the Water Rate Study Residential Customer Panel hosted virtually on June 22, 2021.

The panel was informed of several policy-type changes that would impact residential customers: 1) removal of the inside/outside city differential; 2) changes to the elevation fee to better align cost of service; and 3) the reduction of tiered quantity changes from four tiers to three.

The panel was shown four rate structure alternatives that all showed different ways of charging the Infrastructure Reinvestment Fee. The alternatives were shown with examples of water bills for a low, medium, and high use water customer along with the current rate structure. All alternatives shown were revenue neutral and had cost-of-service applied.

The four alternatives were:

1. **Tiered commodity** (current rate structure)
2. **Uniform commodity** (all customer classes are charged the same rate/CCF)
3. **Add IRF to Ready to Serve charge** based on meter size (IRF becomes a fixed charge)
4. **Add IRF to Property Roll** based on meter size (IRF is no longer on water bill)

## Key Takeaways

- The panel understood and was neutral toward various policy changes, such as removal of the inside city / outside city differential.
- The panel understood and was neutral toward different elevation zones paying proportionately for increased pumping costs to serve them.
- The panel was generally in favor of reducing volumetric tiers from four to three, however there was some discussion about whether the rates in tiers two and three should be higher than the demonstration/example shown.
- The panel showed a preference for making the Infrastructure Reinvestment Fee (IRF) fixed and either placing it within the ready to serve fee or on the property roll but cautioned the City about creating a situation where renters and property owners are at odds.
- If the city chooses placing the IRF within the ready-to-serve charge the panel noted that the impacts on those that use small amounts of water are most noticeable.

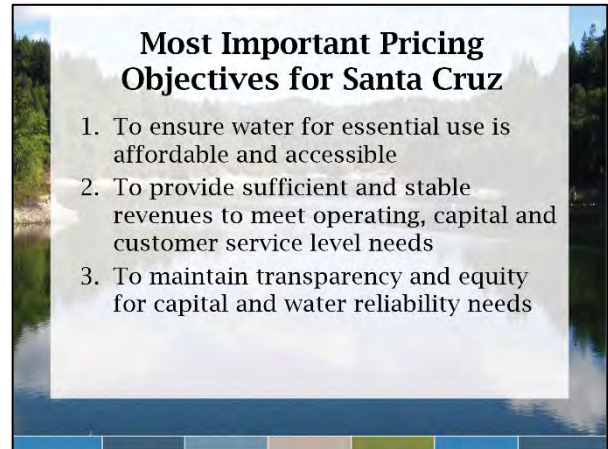
- If the city chooses to place the IRF within the property roll, panel members cautioned about the need to be highly transparent in communication about this change, stressing that the city should state specifically how much the cost on the property roll would be.

**Detailed Summary:**

**Thoughts on pricing objectives** The panel reviewed the pricing objectives set by the City Council. More than one participant wondered where conservation fits in – “It seems to be missing.”

Others reacted favorably to the concept that water for essential use should be affordable. “I like the first one – as long as I’m being careful essential use will be there for me.”

Another cautioned the City to be careful about terms that can be subjective, wondering, “How do we define essential use? What do they mean by ‘equity?’”



The group discussed what would be a major theme of the session – the concern that any changes to the water rate structure should avoid furthering the divide between property owners and renters. “That sort of thing will stall this process like no other,” one panelist warned.

**What are some possible outcomes of removing the inside city/outside city differential?**

The panel understood and recognized the anticipated outcome of this policy decision – that rates charged to in-city customers will go up a bit and out-of-city customers’ rates would come down.

**What are your thoughts on the adjustments to tiers, reducing from 4 to 3, etc.?**

The panel was favorable to this concept. A couple panelists shared their thought that the price per unit in the top tiers should be raised to further discourage customers using water at that level.

Prior to being shown the rate structure alternatives with customer data, the panel was asked about the four alternative ways of charging for the IRF, and shown the following table and asked, **“How should we charge for reliability?”**

#1	Tiered Commodity (current structure)	Charge for enhanced reliability based on consumption patterns and which customer classes peak
#2	Uniform commodity	Charge for enhanced reliability equally among all water users
#3	Add IRF to ready to serve charge	Customers should pay for enhanced reliability based on their potential capacity to use water (meter size)

#4	Add IRF to Property Roll	Relate charges for enhanced reliability to the property itself
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The panel was generally supportive of any alternative that would increase the likelihood / guarantee that the city receive necessary funds for infrastructure even if consumption patterns change. One panelist remarked, “Alternative 4 (property roll) assures the IRF will always be fully funded even if consumption patterns change such that users use less. That seems a nice safety mechanism for the water department.”

Another suggested that Alternative 3 (IRF on ready-to serve) works that way too, as it is a fixed fee.

Another panelist suggested a positive in favor of Alternative 4 (property roll) is relief to renters because property owners would be billed on their property tax roll, while another countered that it would most likely just be passed-through to renters.

The group discussed the divide between property owners and renters, noting that approximately 50% of housing is rental. One panelist opined that “They (the City) could ensure that the property owner could not pass the fee to the renter, maybe?”

A minority opinion was that Alternatives 1 and 2 (current and uniform volumetric) “are interesting in that those that use more, pay more. Some will think that is fairer, especially if higher water use corresponds to greater wear and tear on facilities.”

**Evaluating alternatives**

In general, the panel did not see Alternatives 1 or 2 (current or uniform volumetric) as preferred alternatives. This comment by one panelist was representative of the sentiment expressed, “Alternative 1 (current) is not good because it doesn’t guarantee the City will have money to support its future needs. A publicly-owned utility going bankrupt is not something we want to see in Santa Cruz.”

There was also support for Alternative 3 (IRF on ready-to-serve), where the sentiment expressed was that the panelist would rather pay each month than see a larger bill twice/year. In addition, this alternative was seen as being more transparent than Alternative 4 (property roll).

Comments on Alternative 4 (property roll) included:

- It seems less offensive to be on the tax roll vs. being on the monthly bill.
- This option feels deceptive, as you’re still going to be paying it. There’s no free lunch.
- Good thing about this option is there are tax advantages, possibly.
- The group expressed concern that Alternative 4 could contribute negatively to the classic divide of renters vs. property owners and could create a difficult situation.

The panel agreed that among the four alternatives, coming to consensus will be difficult.

**By the numbers**

The panel was reintroduced to three fictional water users – one who was a low water user, one who would be considered average, and one who was a high water user. The anticipated bill impacts of each alternative were presented.

Opinions on / support for the varying alternatives was unchanged after reviewing the anticipated bill impacts.

Comments included:

- “No matter what you do, someone will feel it is unfair.”
- “There might be room to raise the rate in Tier two and three to further encourage conservation. This is the place to encourage conservation.”
- “I still like alternatives 3 and 4 to help guarantee revenue for important things.”

#### **Miscellaneous group discussion and observations**

One panelist with knowledge of the city’s water system suggested that “The Water Department’s overall revenue need will be significantly higher in the next 5-year rate period primarily due to the need to upgrade and enhance water infrastructure.” The point was, the panel is looking at numbers that are revenue neutral, and she did not think that will be enough in the future.

One panelist wondered if there was any consideration for the number of people in the household, the size of the yard, etc., whether there was precedent for this sort of approach. There was a brief discussion of the concept of water budget-based rates, but the panel was reminded this was not an alternative under consideration.

Another panelist wondered if there would be benefit to different water rates in different seasons, and to lower rates in the summer when watering was necessary and make them higher in the winter.

A panelist suggested a fifth alternative – to combine alternative 3 (IRF on ready to serve) and alternative 4 (property toll) and do both.

***NOTE: Due to limited number of panelists, this summary must be considered in a qualitative frame of reference. In opinion research, qualitative research seeks to develop insight and direction rather than provide quantitatively precise or absolute measures. As a result, this summary cannot be considered reliable or valid in a statistical sense. Rather, this type of research is intended to provide information about attitudes and explore opinions about issues and concerns. Thus, qualitative research should be used as a guide to inform decisions, not predict behaviors.***

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WATER COMMISSION  
INFORMATION REPORT

DATE: 7/7/2021

AGENDA OF: July 12, 2021  
TO: Water Commission  
FROM: Rosemary Menard, Water Director  
SUBJECT: Future Water Rate Options Using Three Water Rate Structures

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**RECOMMENDATION:** That the Water Commission receive and discuss an informational presentation on Water Rate Structure Options and provide direction to staff and the consulting team on which of the three options to use to develop a five-year rate schedule for the Commission's final review and action at its August 23<sup>rd</sup> meeting.

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**BACKGROUND:** The Santa Cruz Water Commission has been working with Water Department staff on updating the Department's financial planning work over the last 18 months. Activities included revising system development charges, looking at long-term revenue requirements to support capital investment in the water system and water supply, evaluating several policy issues such as outside-city rate surcharges and elevation pumping fees, developing water pricing policy objectives, and learning about and providing feedback on cost of service and rate structure options. At the Commission's July 12<sup>th</sup> and planned August 23<sup>rd</sup> meetings, all these efforts will come together in a set of proposed water rates that will go to the Council for consideration in September.

At the Commission's May 3<sup>rd</sup> meeting, a range of rate structure options was presented using existing (FY 2019) revenue requirements. Those options included:

1. Maintaining the existing volume-based rate structure in which both the consumption charge and the Infrastructure Reinvestment Fee (IRF) are based on amounts of water used, and are tiered for those user rates that are based on tiered consumption.
2. Maintaining the volume-based rate structure for the consumption charge, and shifting the IRF to the fixed charge based on meter size.
3. Maintaining the volume-based rate structure for the consumption charge, and converting the IRF to a uniform charge for each unit of water consumed.
4. Maintaining the volume-based rate structure for the consumption charge and shifting the IRF to the property tax based on meter size.

In all of these options, the meter and customer service costs are collected as a fixed charge based on meter size, which is the same as it is now.

The Water Commission discussed the options and asked questions for clarification, indicating general support for collecting the IRF on the property tax bill because of the resulting lowering and stabilizing impacts on customer water bills.

Immediately following this discussion, Water Commissioners heard from Melissa Elliot from the Raftelis team about the results of the irrigation and commercial customer panels where water policy choices and rate structure options were discussed. Participants in these panels raised a number of questions about collecting water-related charges on the property tax bill. Subsequent residential panel members also raised similar issues about the property tax options at the customer panels held in June as reported on separately in the meeting materials for the Commission's July 12, 2021 meeting.

Following the May 3<sup>rd</sup> discussion, staff directed Raftelis to develop forward-looking rates for Alternatives 1, 2, and 3 as described above, but not for Alternative 4. The direction to not develop rates for Alternative 4 was less about taking the option for collecting the IRF on the property tax bill completely off the table than it was about reducing the number of options that forward-looking rates would be developed for. The option of collecting the IRF on the property tax role can be viewed as a variation of Alternative 2, and should we want to consider that option further, the monthly meter size based IRF would be subtracted from the monthly estimated bill and that monthly meter size based IRF amount would be multiplied by 12 and that would be the annual amount collected on the property tax roll.

**DISCUSSION:** At its July 12<sup>th</sup> meeting, the Water Commission will see forward-looking water rates for Alternatives 1, 2, and 3 and will need to provide direction to staff and the consulting team about which alternative to pursue for the rate proposal to be recommended to the City Council and to be included in a proposed Proposition 218 notice and public process.

The key issue is how to fund the IRF, or perhaps more simply, how to fund the Department's capital investment program, which is basically all about reliability. As Commissioners are well aware, neither the Department's critical backbone infrastructure nor its water supply is reliable, particularly with respect to the current and expected impacts of climate change. The Department's capital program is almost entirely focused on increasing infrastructure reliability and resilience and improving the reliability of Santa Cruz's water supply. All customers benefit from these improvements, and so the main question is "What is the best way to collect the costs allocated to each customer class for these improvements?"

The choices before the Water Commission come down to the following:

1. Funding the IRF using the same tiered or uniform rate commodity structure used to collect the consumption-based costs that fund the Department's operating budget;
2. Funding the IRF using a uniform rate in which every unit of consumption is charged a fixed amount; or
3. Funding the IRF using a fixed charge based on meter size.

Each of the options that the Commission will review will collect the projected IRF cost allocated to each customer class, they just do it in different ways. Focusing on single-family residential

customers, as both the largest customer class and the group contributing the largest part of the Water Department's funding:

- Alternative 1 would collect the IRF funding from those using greater amounts of water in the rates where tiers are in place (residential, irrigation);
- Alternative 2 would collect the IRF as a uniform charge for every unit used, without increasing the cost per unit for higher users; and
- Alternative 3 would collect the IRF by spreading the cost allocated to residential customers with 5/8<sup>th</sup> inch meters equally among all 22,258 property owners in this situation.

In the first two options, those customers using less water will have a smaller financial impact to their bill than would be the case if the IRF were allocated by meter size. Between the first two options, low water users would pay less under Alternative 1 than the same low water using customer would pay under Alternative 2.

A key question for Water Commissioners is which of these options for funding the IRF does the best job in meeting the water pricing priority policy objectives below, which were developed by the Water Commission and City Council?

1. Ensures water for essential use is affordable to all customers
2. Maintains transparency and equity for capital and water reliability needs
3. Provides sufficient revenues to meet operating, capital, and customer service level needs

FISCAL IMPACT: None

PROPOSED MOTION: Motion to direct staff and the consulting team to develop a five- year rate schedule for one rate structure option for the Commission's final review and action at its August 23<sup>rd</sup> meeting

ATTACHMENTS:

1. Raftelis Water Rate Customer Panel Presentation and Water Rate Alternatives Presentation

# City of Santa Cruz

**Water Cost of Service and Rate Study**

**Water Commission Meeting**

July 12, 2021



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# Agenda

1. Objective / Goal of the Presentation
2. Input from Customer Panels
3. Rate Process
4. Rate Structure Alternatives
5. Rates for Operating Costs
6. Rates Alternatives and Impacts
7. Discussion
8. Next Steps

## Objectives / Goal of the Presentation

- Objective: To present the different rate options to the Water Commission for their consideration
  - › Rate options take into account:
    - Cost of Service Analysis
    - 5 Year Financial Needs of the Water Utility
    - Different policy consideration on how to address the **funding of reliability**
- Goal: Receive direction from the Water Commission on which rate option to proceed with

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Address funding of reliability and secure direction on which rate structure option we should pursue.

# Input from Customer Panels



# Customer Panels



**Residential**  
Single family and  
multifamily  
residential  
account holders



**Irrigation**  
Including HOA's, City  
Parks, irrigation and  
landscaping  
professionals, and  
property managers



**Commercial**  
Representing  
businesses such as a  
retail property  
manager, restaurant  
owner, hotel manager



# Panels shown examples for varied usage

## Residential



**John (Medium Residential Water Use)**  
 Monthly Usage  
 8 CCF  
 5/8" Meter / Outside City / Elevation Fee

Water Distribution Fee: 1.00 x 1.0	\$0	Charged per CCF
Elevation Fee: \$1.50 x 3.0	\$4.72	Outside City Rate Charged per CCF
For 1.00 CCF Quantity - Residential Use: \$14.72 x 1.0	\$14.72	Tier 1: Inside City Rate per CCF
For 1.00 CCF Quantity - Residential Use: \$34.00 x 1.0	\$34.00	Tier 2: Outside City Rate per CCF
For 1.00 CCF Quantity - Residential Use: \$51.85 x 1.0	\$51.85	Tier 3: Outside City Rate per CCF
Ready-to-Serve	\$12.26	Outside City Charge per meter foot
<b>Total Charges \$ 116.51</b>		Elevation Fee Outside City Rates

## Irrigation



**Apartment Complex**  
 Medium Irrigation Water Use  
 August Monthly Usage of 253 CCF (18 CCF into Tier 2)  
 Annual Water Budget - 1,910 CCF  
 August - 238 CCF Budget (January - 54 CCF Budget)  
 1.5" Meter / Outside City / Use into Tier 2 / Elevation Surcharge

Elevation Surcharge: \$0.59 x 253	\$149.27	Charged per CCF
Water Distribution Fee: \$1.00 x 1.0	\$253.00	Charged per CCF
For 238 CCF Quantity - Residential Use: \$113.60 x 1.0	\$113.60	Charged per CCF
For 18 CCF Quantity - Residential Use: \$598.55 x 1.0	\$998.55	Charged per CCF
For 18 CCF Quantity: \$230.22 x 1.0	\$230.22	Outside City Rate per CCF
For 18 CCF Quantity: \$2,251.50 x 1.0	\$2,251.50	Outside City Rate per CCF
Ready-to-Serve	\$14.83	Charged per meter foot
<b>Total Charges \$4,001.37</b>		Using Water Above Budget

## **Panel #1: Current Structure Discussion**

- Why do you think the City may need to change its rate structure now?
- How would you explain how the City charges customers for water service?
- The City has an inside city rate and an outside city rate. Why do you think they do this?
- What are your feelings about how fair and equitable the current rate structure is?
- How would you prefer to be notified of upcoming rate changes?
- How much does the cost of water factor into your budget planning

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## **Panel #2/#3: Alternatives**

Panels were told the following changes would be reflected in the current rate structure + three alternatives:

1. Remove inside city / outside city differential. Customers will be charged the same within their customer class regardless of where their property is located.
2. Retain elevation fee, but provide different zones based on cost to serve
3. Increase fire ready-to-serve fee to the cost to serve commercial customers
4. Residential volumetric charges move from four tiers to three
5. Cost of service was applied

## Panels Given These Instructions:



Rate structure alternatives shown were REVENUE NEUTRAL – the changes nets the water utility the same amount of revenue from customers.



Rates, fees, and charges are all for discussion purposes only. What panels saw will not necessarily be what is adopted.



Rates are designed to cover only the cost of service. There is no profit.

## **Alternatives all focus on how to charge for the Infrastructure Reinvestment Fee**

- 1. Tiered commodity** (current rate structure)
- 2. Uniform commodity** (all customer classes are charged the same rate/CCF)
- 3. Add IRF to Ready-to-Serve charge** based on meter size (IRF becomes a fixed charge)
- 4. Add IRF to Property Roll** based on meter size (IRF is no longer on water bill)

## How Should We Charge for Enhanced Reliability?

#1	Tiered Commodity (current structure)	Charge for enhanced reliability based on consumption patterns and which customer classes peak
#2	Uniform commodity	Charge for enhanced reliability equally among all water users
#3	Add IRF to ready to serve charge	Customers should pay for enhanced reliability based on their potential capacity to use water (meter size)
#4	Add IRF to Property Roll	Relate charges for enhanced reliability to the property itself

# Each alternative was shown for a low, medium and high water use customer



**John** (Medium Residential Water Use)  
 Monthly Usage  
 8 CCF

5/8" Meter / Outside City / Elevation Fee

#1 – Current Structure with cost to serve and policy changes applied

Current Structure and Rates

Item	Rate	Quantity	Amount
Water Meter	\$8	1	\$8
Water Meter	\$4.72	1	\$4.72
Water Meter	\$14.72	1	\$14.72
Water Meter	\$24.96	1	\$24.96
Water Meter	\$51.85	1	\$51.85
Water Meter	\$12.28	1	\$12.28
<b>Total</b>			<b>\$116.51</b>

Rates and Amounts shown are for demonstration and will not be the final rates adopted.



**John** (Medium Residential Water Use)  
 Monthly Usage  
 8 CCF

5/8" Meter / Outside City / Elevation Fee

#2 – Current Structure with cost to serve and policy changes applied

Item	Rate	Quantity	Amount
Water Meter	\$8	1	\$8
Water Meter	\$1.36	1	\$1.36
Water Meter	\$0	1	\$0
Water Meter	\$37.82	1	\$37.82
Water Meter	\$50.05	1	\$50.05
Water Meter	\$11.58	1	\$11.58
<b>Total</b>			<b>\$108.61</b>

Rates and Amounts shown are for demonstration and will not be the final rates adopted.

## **Alternative Structure Discussion**

- What is your feelings about how fair and equitable these rate structure alternatives are for customers?
- Do you have a preference?
- How important do you think this change will be to customers?
- What questions do you think customers will ask?
- What is better for customers...paying on the property tax rolls, or paying monthly in the bill? Or keeping things the same?



## Key Takeaways

- Panels understood and were neutral toward various policy changes, such as removal of the inside city / outside city differential, reduction in residential tiers, changes in elevation and fire charges
- Panels generally saw benefits to charging the IRF as a fixed charge, but for different reasons:
  - Irrigation and commercial customers said this made their bills more predictable.
  - Residential customers said they valued future water system reliability and felt that a fixed charge provided the most stable source of revenue for this, but noted that customers that use small amounts of water would see the greatest percentage increase in their bills.
- None of the panels preferred the current structure to the alternatives presented.
- Irrigation customers preferred the uniform commodity alternative, but cited interest in the IRF on the ready-to-serve charge, their concerns were that this might encourage others to use more water

## **Key Takeaways**

- Irrigation and Commercial customers were leery of charging the IRF as a fixed charge on the property roll, citing transparency and logistical challenges
- Residential customers were intrigued by placing the IRF within the property roll, but panel members urged caution in two areas:
  - The city would need to be highly transparent about this change, stating specifically how much the cost on the property roll would be
  - The city could potentially create a situation where renters and property owners are at odds

# Rate Process



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## Process

- The preliminary results in this presentation are based on the cost of service (COS) analysis, which is:
  - › Revenue neutral (collects same amount of revenue as FY 2021 rates)
  - › Cost of service analysis utilizes the FY 2021 Budget
  - › Based on customer consumption data from FY 2019
- The COS rates are based on the above assumptions
- Financial requirements are then layered onto the COS rates
  - › Rates will be increased across the board based on required revenue adjustments

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The analysis is a two-step process. The first being the Cost of Service, which is based on the 2021 budget and 2019 volumetric consumption. This scenario is revenue neutral and based on FY 2021 rates and FY 2019 customer data (the "representative year" of data, determined during the kick-off meeting of this study).

The second step is to layer on top the financial need of the utility. The financial requirements for the City of Santa Cruz were developed by independent consultant PFM.

## Overview

- “Revenue neutral” requirement is \$39.3 million
  - › \$9 million or 23% is for infrastructure/capital-related costs
  - › Omits Rate Stabilization Fee revenues
  - › No differential between Inside and Outside City rates
    - Currently Outside pays 14.5% surcharge
    - Based on a prior analysis (all else equal), Inside will go up ~4% and Outside will decrease by ~8%

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Based on FY 2019 customer data and FY 2021 water rates, the total rate revenues less Rate Stabilization Fee revenues is \$39.3 million. \$9 million of this revenue requirement is related to infrastructure or capital related costs and equals cash funded capital plus debt service costs. The preliminary rates do not have a rate differential between Inside and Outside City customers – meaning that Inside City customers' rates will increase and Outside City customers' rates will decrease based on this change.

## **North Coast Ag**

- Raftelis is currently developing different rate options for North Coast Ag which will be presented at a later date

## Financial Plan

- IRF collects PAYGO and debt service
- O&M portion collects remaining (less RSF)

Revenue Adjustments	COS	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
O&M	\$30,198,495	\$32,696,06	\$34,069,03	\$36,018,42	\$37,980,39	\$40,168,47
IRF	\$9,136,232	\$9,348,238	\$14,517,87	\$21,446,88	\$21,513,98	\$25,038,67
<b>Total</b>	<b>\$39,334,72</b>	<b>\$42,044,299</b>	<b>\$48,586,90</b>	<b>\$57,465,30</b>	<b>\$59,494,38</b>	<b>\$65,207,14</b>
<b>Adjustment %</b>						
<i>Total</i>		6.9%	15.6%	18.3%	3.5%	9.6%
<i>Average</i>		10.8%	10.8%	10.8%	10.8%	10.8%

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The revenue requirement is broken into two portions: Infrastructure Reinvestment Fee (IRF) and Operations & Maintenance (O&M). The total revenue requirement is the amount of rate revenue to be collected from the City's water customers and are based on the financial analysis provided by PFM. The total adjustment percentage is applied to the COS rates for FY 2023 through FY 2027. Although the revenue adjustments vary year to year, the average annual adjustment is approximately 10.8%.

COS Revenues (\$39.3M) are the rates in FY 2021 multiplied by the FY 2019 consumption. FY 2019 consumption was before any COVID impacts.

## **Proposed Rate Comparisons**

- COS is developed for FY 2021
- City has implemented new rates for FY 2022, which increases both rates and revenues by 5% across the board
- First year of proposed rates is FY 2023
  
- This presentation will compare FY 2022 vs. FY 2023 proposed rates (with revenue adjustments)

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This presentation shows the total impact of the Cost-of-Service and the required revenue needs of the utility. Given that the City has adopted rates for FY2022, customers will be comparing their current bills with the proposed FY2022 rates.



# Rate Structure Alternatives



## Current Rate Structure

### Fixed Components

- Ready-to-Serve (RTS) Charge
  - › Based on meter size
- Private Fire RTS Charge
  - › Flat charge per month

An Outside City surcharge of 14.5% is applied to all components, except for the Rate Stabilization Fee

### Variable Components

- Quantity Charge / Infrastructure Reinvestment Fee (IRF)
  - › Residential: 4 tiers
  - › Commercial, North Coast, UCSC: uniform
  - › Irrigation: 3 tiers based on water budget
- Elevation Surcharge
- Rate Stabilization Fee

## **Policy Themes**

- The following policy themes were identified as Most Important and Very Important objectives
  1. Ensures water for essential use is affordable to all customers
  2. Maintains transparency and equity for capital and water reliability needs
  3. Provides sufficient revenues to meet operating, capital, and customer service level needs
- Concern of staff is administrative ease given limited resources

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The policy themes were identified in prior Water Commission meetings and help guide us through the rate scenario selection process. The Water Commission identified three themes (affordability, transparency, and revenue sufficiency) while staff identified one theme (administrative ease).

## Residential Tiers

- Based on March 1 Water Commission Meeting, Residential customers will have a three-tier rate structure

Residential Tiers	Current	Proposed	Rationale
Tier 1	5	5	Average winter use
Tier 2	7	9	Average summer use
Tier 3	9	10+	
Tier 4	10+		

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The preliminary Residential rates incorporate a three-tier rate structure. Tier 1 is based on average winter use and is a proxy for indoor water use (since irrigation is generally minimal during these months). Tier 2 is based on average summer use and is a proxy for outdoor water use. Tier 3 is any amount of use over Tier 2.

## **IRF Alternatives**

- IRF currently collects \$9 million (23% of costs)
- Options to assess the IRF:
  - › Tiered commodity (current methodology)
  - › Uniform commodity
  - › RTS charge based on meter size (fixed)
  - › ~~Property roll based on meter size (fixed)~~

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In a prior Water Commission meeting, we presented four options to assess the IRF to recover capital/infrastructure related costs. Based on discussion with Santa Cruz staff and feedback from the customer panels, the three options that are presented in this meeting are the tiered commodity option (based on the current methodology, but with updated COS allocations and Residential rate structure), a uniform commodity structure, and the readiness-to-serve charge option. The customer panels provided positive feedback on the RTS charge: it is equitable, transparent, and allows the City to collect sufficient revenue to fund critical infrastructure.

## **Peaking and Cost of Service**

- Compared to the 2016 rate study, peaking has decreased for overall water system
- Irrigation customers are peaking more while most other customer classes are peaking less
- Given that cost of service is a zero-sum game, peaking costs on the commodity charge will shift significantly to Irrigation accounts

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We developed a peaking analysis for the water system as well as the individual customer classes. While all other customer classes exhibited lower peaking characteristics, Irrigation is the only customer class that has seen increased peaking since the analysis performed in the 2016 water rate study. Given the results of this analysis, the peaking-related costs are allocated to Irrigation customers in a higher proportion compared to the previous study.

# Rates for Operating Costs



## Components of Revenue Requirement

- Two components of revenue requirement: operating and IRF
- **RTS charge (fixed operating)**
  - › Customer service and billing: cost per account
  - › Meter service: cost of replacing a meter
- **Quantity charge (variable operating)**
  - › Base: cost per unit of water
  - › Peaking: based on peaking analysis
  - › Supply: cost per unit of water
  - › Conservation: targeted to upper tiers
- **IRF (determined in following section)**



## RTS Charge (FY 2021 vs. COS)

Meter Size	Meters & Services	Billing & CS	COS Charge	FY 2021 Charge (Inside)	Difference (\$)	Number of Meters
5/8 inch	\$2.05	\$9.53	\$11.58	\$10.71	\$0.87	21,719
3/4 inch	\$2.26	\$9.53	\$11.79	\$10.99	\$0.80	498
1 inch	\$2.87	\$9.53	\$12.41	\$11.83	\$0.58	1,461
1-1/2 inch	\$3.69	\$9.53	\$13.23	\$12.94	\$0.29	466
2 inch	\$5.95	\$9.53	\$15.48	\$16.02	(\$0.54)	411
3 inch	\$22.58	\$9.53	\$32.11	\$38.71	(\$6.60)	47
4 inch	\$28.74	\$9.53	\$38.27	\$47.11	(\$8.84)	23
6 inch	\$43.10	\$9.53	\$52.63	\$66.71	(\$14.08)	12
8 inch	\$59.52	\$9.53	\$69.05	\$89.11	(\$20.06)	4
10 inch	\$78.00	\$9.53	\$87.53	\$114.32	(\$26.79)	3

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The RTS charges shown here are revenue neutral. The meters and services component varies by meter size based on the cost to replace that meter. Billing and customer service is the same for all meter sizes: it costs the same to provide customer service and bills to any meter, regardless of size. Compared to the prior Cost-of-Service, the billing and CS cost has increased more proportionately than meter service charges.

## RTS Charge (FY 2022 vs. FY 2023)

Meter Size	COS Charge	Proposed FY 2023 Charge	Current FY 2022 Charge	Difference (\$)	Number of Meters
5/8 inch	\$11.58	<b>\$12.38</b>	\$11.26	\$1.12	21,719
3/4 inch	\$11.79	<b>\$12.61</b>	\$11.56	\$1.05	498
1 inch	\$12.41	<b>\$13.27</b>	\$12.44	\$0.83	1,461
1-1/2 inch	\$13.23	<b>\$14.15</b>	\$13.61	\$0.54	466
2 inch	\$15.48	<b>\$16.55</b>	\$16.85	(\$0.30)	411
3 inch	\$32.11	<b>\$34.33</b>	\$40.71	(\$6.38)	47
4 inch	\$38.27	<b>\$40.91</b>	\$49.55	(\$8.64)	23
6 inch	\$52.63	<b>\$56.26</b>	\$70.16	(\$13.90)	12
8 inch	\$69.05	<b>\$73.81</b>	\$93.73	(\$19.92)	4
10 inch	\$87.53	<b>\$93.56</b>	\$120.24	(\$26.68)	3

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The Ready to Serve (RTS) charges shown here compare the Cost-of-Service (revenue neutral) rate, the proposed FY 2023 charge with revenue adjustments applied, and the current FY 2022 rates. Note that these RTS charges include only the Operations & Maintenance (O&M) component.

## Commodity Charge (FY 2021 vs. COS)

Customer Class	Base	Water Supply	Peaking	Conservation	COS Charge	FY 2021 Charge (w/o IRF)	Difference (\$)
<b>Residential</b>							
Tier 1	\$3.30	\$2.81	\$1.05	\$0.00	<b>\$7.17</b>	\$7.01	\$0.16
Tier 2	\$3.30	\$2.81	\$1.98	\$1.60	<b>\$9.70</b>	\$7.83	\$1.87
Tier 3	\$3.30	\$2.81	\$3.15	\$2.51	<b>\$11.78</b>	\$9.04	\$2.74
Tier 4						\$10.72	
<b>Commercial</b>	\$3.30	\$2.81	\$1.45	\$0.40	<b>\$7.98</b>	\$8.01	(\$0.03)
<b>UCSC</b>	\$3.30	\$2.81	\$1.68	\$0.40	<b>\$8.21</b>	\$8.17	\$0.04
<b>Irrigation</b>							
Tier 1	\$3.30	\$2.81	\$4.62	\$0.00	<b>\$10.75</b>	\$8.36	\$2.39
Tier 2	\$3.30	\$2.81	\$6.01	\$3.64	<b>\$15.77</b>	\$11.16	\$4.61
Tier 3	\$3.30	\$2.81	\$7.29	\$7.27	<b>\$20.68</b>	\$12.52	\$8.16

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The commodity charges shown here are revenue neutral and incorporate the costs of average demand, water supply, peak demand, and conservation (which is applied to the upper tiers). The FY 2021 rate used as a comparison is the commodity charge without the Infrastructure Reinvestment Fee (IRF) component for Inside City customers (where applicable). Base, water supply unit rates are the same for all customer types and tiers. Peaking and conservation is the variable component between customers and tiers, and peaking is based on peaking patterns of each customer class. Conservation is allocated based on peaking and outside water use.

## Commodity Charge (FY 2022 vs. FY 2023)

Customer Class	COS Charge	Proposed FY 2023 Charge	Current FY 2022 Charge	Difference (\$)
<b>Residential</b>				
Tier 1	\$7.17	<b>\$7.67</b>	\$7.37	\$0.30
Tier 2	\$9.70	<b>\$10.37</b>	\$8.24	\$2.13
Tier 3	\$11.78	<b>\$12.60</b>	\$9.51	\$3.09
Tier 4			\$11.28	
<b>Commercial</b>	\$7.98	<b>\$8.53</b>	\$8.43	\$0.10
<b>UCSC</b>	\$8.21	<b>\$8.78</b>	\$8.60	\$0.18
<b>Irrigation</b>				
Tier 1	\$10.75	<b>\$11.50</b>	\$8.80	\$2.70
Tier 2	\$15.77	<b>\$16.86</b>	\$11.74	\$5.12
Tier 3	\$20.68	<b>\$22.11</b>	\$13.17	\$8.94

33

The commodity charges shown here compare the Cost-of-Service (COS) (revenue neutral) rate, the proposed FY 2023 charge with revenue adjustments applied, and the current FY 2022 rates. Note that these commodity charges include only the Operations & Maintenance (O&M) component (no Infrastructure Reinvestment Fee).

# Rate Alternatives and Impacts



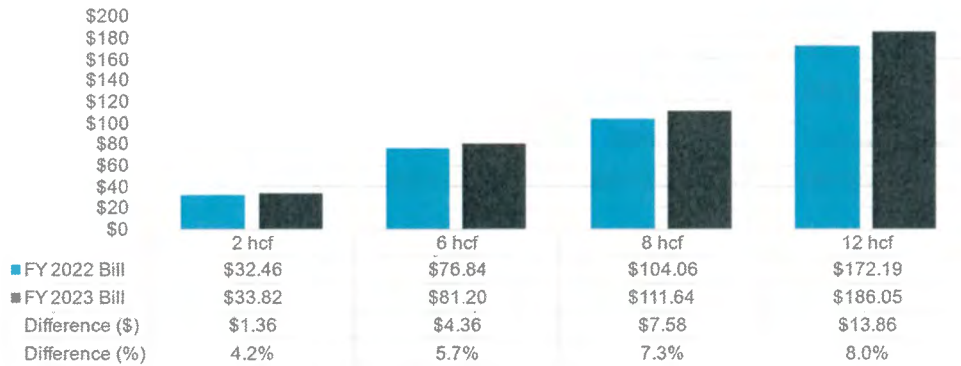
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## **Rate Alternatives for IRF**

- Tiered Commodity
  - › Costs are spread based on peaking by customer class and tiers
- Uniform Commodity
  - › Costs are spread evenly among water consumption
- Fixed based on meter size
  - › Based on the hydraulic capacity of the meter size

## IRF on Tiered Commodity Charge FY 2022 vs. FY 2023 Rates

Bill Impacts for Residential (Inside City), 5/8 inch meter

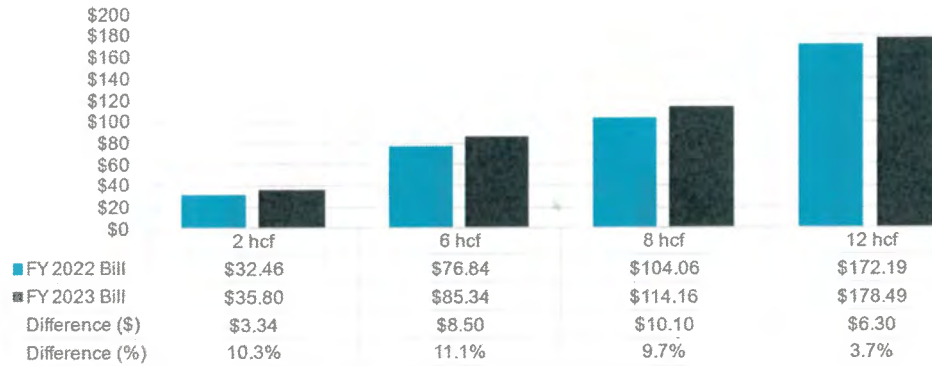


36

This slide shows level of water use at varied HCFs with the current bill (2022) and proposed bill under IRF/tiered commodity in 2023. The proposed bill takes into account the Cost-of-Service and the required revenue needs.

## IRF on Uniform Commodity Charge FY 2022 vs. FY 2023 Rates

Bill Impacts for Residential (Inside City), 5/8 inch meter



37

This slide shows level of water use at varied HCFs with the current bill (2022) and proposed bill under uniform commodity in 2023. The proposed bill takes into account the Cost-of-Service and the required revenue needs.



## IRF on RTS Charge FY 2022 vs. FY 2023 Rates

Bill Impacts for Residential (Inside City), 5/8 inch meter



38

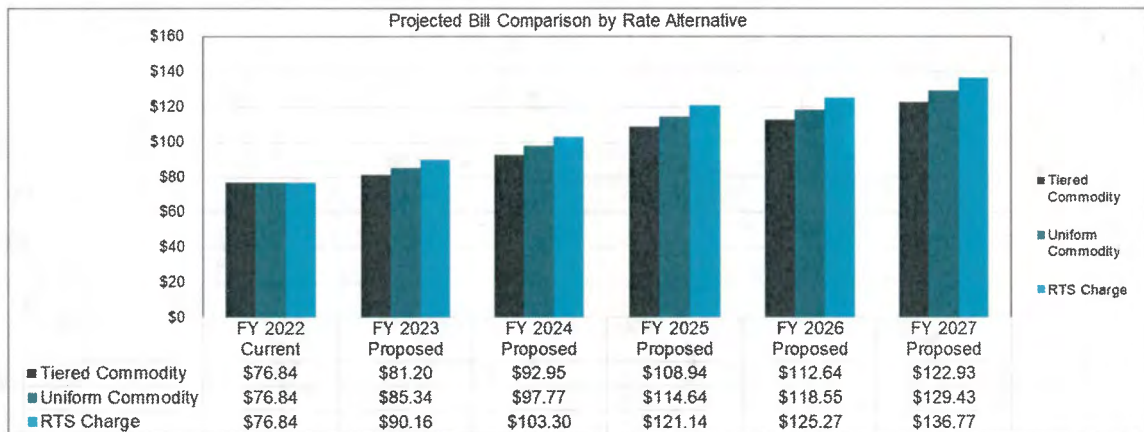
This slide shows level of water use at varied HCFs with the current bill (2022) and proposed bill under IRF as a fixed charge in 2023. The proposed bill takes into account the Cost-of-Service and the required revenue needs.

# Five-Year Bill Comparison



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## Bill Comparison by Rate Alternative Residential 5/8" Meter at 6 CCF



This shows the alternative scenarios for the 5-year rate proposals under six hcf (average water use).

## **For Discussion / Direction:**

- Which rate structure is most appropriate to enhance reliability while addressing other competing needs?
  - › Tiered commodity (current methodology)
  - › Uniform commodity
  - › RTS charge based on meter size (fixed)

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Address funding of reliability and secure direction on which rate structure option we should pursue.

## **Rate Study Next Steps**

- Based on direction from the Water Commission, Raftelis will:
  - › Write the administrative record (report)
  - › Develop and finalize five-year rate schedule for the Prop 218 notice



# Thank you!

**Contact:**

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WATER COMMISSION  
INFORMATION REPORT

DATE: 7/7/2021

AGENDA OF: July 12, 2021

TO: Water Commission

FROM: Rosemary Menard, Water Director

SUBJECT: State and Federal Initiatives for Low Income Water Rate Assistance Programs

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**RECOMMENDATION:** That the Water Commission receive information related to the status of various state and federal initiatives for low-income water rate assistance programs.

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**BACKGROUND:** As the Water Commission and Water Department staff have been working on updating long-range financial plans and water rates, staff has been working simultaneously on learning more about the affordability of water and wastewater costs for utility customers. The resulting affordability analysis was developed last fall and shared with Water Commissioners at its November 2, 2020 meeting and subsequently with City Council at its April 6, 2021 meeting.

As has been discussed at several Water Commission meetings during the last several years, the Water Department's capital investment program has been and will continue to drive water rate increases. These increases inevitably further exacerbate anticipated water affordability issues that were first assessed following the 2016 water rate increase.

The constraints resulting from the Proposition 218 prohibition against using funds generated by one group of water rate payers to subsidize the cost of providing water service to another group of rate payers and the Santa Cruz Water Department's lack of access to non-rate revenue funds effectively eliminate any potential for establishing and implementing any kind of low-income water rate assistance program with local resources. This reality makes the potential opportunities that would be available from either a state and/or federally funded program providing water rate payer assistance something of significant interest to Santa Cruz Water and its customers.

Attachment 1 is a June 22, 2021 City Council item on state and federal water and wastewater affordability legislation and initiatives, and includes information on various state and federal legislation and related initiatives to distribute federal and state COVID-19 recovery funds to support utility payments, with a particular focus on arrearages for water and wastewater utility services. Many of these funds are available for any customer with utility payment arrearages, rather than focusing only on those meeting specific income qualifications, although-long-term

water and wastewater rate support programs almost certainly will be limited to income-qualified households.

Attachment 2 is a June 28, 2021 informational item from the Association of California Water Agencies (ACWA) that summarizes a significant budget agreement between the California Legislature and the Governor related to water and wastewater infrastructure and drought response related funding and includes the final amount of \$985 million in state funding for utility arrearages.

With respect to the local situation, as of May 2021, there were 744 Santa Cruz Municipal Utilities customers who owed \$1.1 million for water, wastewater, and refuse services. About 2/3rds (\$0.73 m) of these charges are associated with water and wastewater services. The amount owing also includes utility tax and franchise fees associated with utility services, all of which go to the general fund.

All customer types are included in groups with arrears: 612 of the accounts are single-family residential customers, 50 of the accounts are for multi-family residential customers, and the rest are business/industrial customers. About 200 of the single-family residential customers have balances greater than \$1,000, and about 80 of these customers have balances greater than \$2,000.

**DISCUSSION:** Beyond the encouraging news about the commitment of funding for dealing with utility arrearages, there is now a very real potential for the federal or state government to establish a permanent “safety net” for customers having difficulty paying utility bills. These developments are important to the Santa Cruz water rate making discussions. Maintaining equitable access for all customers to critically important drinking water and wastewater services helps protect public health and maintain community well-being. The Santa Cruz water and wastewater utilities are without a reliable source of non-rate revenue needed to establish and maintain a water rate assistance program on their own, and City general fund resources are not available for this purpose either.

A common theme of the various state and federal programs that are being discussed is that the funding goes to the utility and the utility allocates it to customers whose circumstances meet the income or other qualifications established in the program. Attachment 3 is the proposed California Senate budget Trailer Bill Language for Water and Wastewater Providers that shows an example of the types of income or other qualifications required for participation in the program and includes at least preliminary details about administrative requirements for processing, documentation, and record keeping that participating utilities will be required to support and comply with.

Santa Cruz Municipal Utilities (SCMU) staff are already engaged in evaluating what it would take for the City to support implementation of a program to assist customers with COVID-19 related arrearages, and such a program will provide useful information about the operation of a potential long-term program supported with either state or federal funds. The assessment is focusing on staffing resources needed – with existing drought-related requirements, the SCMU customer staff does not have the capacity to support additional work – as well as procedures and potential billing system programming requirements.



In spite of the many positive developments related to water and wastewater utility rate assistance for income-qualified customers, at least one very challenging problem related to how to provide utility rate assistance to income-qualified residents of multi-family dwellings where utility services are typically incorporated into tenant's rent. Unlike energy services type programs where even in multi-family dwellings, units are individually metered, most multi-family dwellings are not individually metered for water-related services. From an equity perspective, it will be important to find a way to address the needs of income-qualified tenants of multi-family dwellings. This problem exists virtually everywhere public water utilities operate, making it a priority for consideration as water and wastewater utility assistance programs are developed and implemented in the coming months and years.

FISCAL IMPACT: None.

PROPOSED MOTION: This item is for information and discussion only. No motion is required.

ATTACHMENTS:

1. June 22, 2021 City Council Agenda Report on Water Rate Assistance Programs
2. June 28, 2021 ACWA Informational Item on Water Arrearage and Drought Package Budget Agreement
3. California Senate Budget Trailer Bill Language on Water Arrearage Program



## CITY COUNCIL AGENDA REPORT

DATE: June 10, 2021

AGENDA OF: June 22, 2021

DEPARTMENT: Water

SUBJECT: City Council Support for State and Federal Legislation or Programs Providing Resources for On-going Low Income Water and Wastewater Assistance Programs (WT)

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**RECOMMENDATION:** Motion to authorize the Mayor to send letters to federal and state policy-makers and legislative representatives expressing support for current or potential future legislation or programs that will provide on-going funding for water and wastewater rate-payer assistance for qualifying low-income customers.

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**BACKGROUND:** As part of its April 6, 2021 staff report and presentation of information to the Council on Water financial planning and rate development issues, Water Department staff provided information on the affordability of water and wastewater services for customers residing in the Santa Cruz water service area. The presentation emphasized that while water and wastewater services are generally affordable to most customers, the rising cost of utility service will inevitably result in rising levels of affordability issues in the years to come.

The affordability issue that City leaders and staff have identified is not unique to Santa Cruz where capital investments in water utility infrastructure to address supply reliability, prepare to adapt to climate change and address aging infrastructure issues are driving costs increases. Large and small water utilities in California and beyond are raising concerns with state and federal policy makers and legislators about maintaining equitable access to critically important water and wastewater services for customers in their service areas who are least able to pay.

Earlier this year the National Association of Clean Water Agencies (NACWA) and the Association of Metropolitan Water Agencies (AMWA) launched the Affordable Water, Resilient Communities Campaign (see <https://www.affordableh2o.org/>). In describing the campaign NACWA and AMWA sum up both the challenge that local water service providers such as Santa Cruz face and the need for state and federal assistance:

“Clean and safe water is essential – and accessing it can be expensive. Providing water where it’s needed, when it’s needed, and how it’s needed is costly already – and aging infrastructure, emerging contaminants, climate threats, and more all threaten to keep costs rising and increasingly unaffordable for many Americans.

In the U.S., the majority of clean and drinking water providers are public, not-for-profit local utilities serving their communities in accordance with federal regulations. But while and safe water services advance federal goals, and protect public health and the environment for the benefit of all Americans, the federal-state-local partnership is strained. The federal cost-share for clean and drinking water has fallen for three decades to below 5 percent, which is a much smaller federal share than other core infrastructure sectors.<sup>1</sup>

Water services are vital to public health, environmental protection, and economic opportunity. It will take a strong federal-state-local partnership to help support the common goal of clean and safe, accessible and affordable water for all.”

In recent years at both the state and federal levels, policy makers and legislators have begun to acknowledge the challenges that water customers and the utilities that serve them face in terms of maintaining the affordability of water service.

At the state level, for example, in 2015 then California Assembly member Dodd introduced AB 401 that required the state to prepare an analysis of what would be required to develop and fund a Low-Income Water Rate Assistance Program for qualifying Californians.

The required report was developed and provided as a review draft in February 2019 and as a final document in February 2020 (see [https://www.waterboards.ca.gov/water\\_issues/programs/conservation\\_portal/assistance/](https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/assistance/)), but no program was proposed until this year when (now) Senator Dodd introduced SB 222 (see [https://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=202120220SB222](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB222)).

SB 222 would create the Water Rate Assistance Program, including setting up a Water Rate Assistance Fund, and the State Senate passed this legislation on a 31 to 7 vote on June 1, 2021. Actions on the bill in the State Assembly and appropriations action in both the Senate and the Assembly are pending at this time.

At the federal level, the December 2020 Consolidated Appropriations Act (P.L. 116-260) provided \$638 million for a Low-Income Household Drinking Water and Wastewater Emergency Assistance Program (LIHWAP) modeled after the long-standing Low-Income Household Energy Assistance Program (LIHEAP). This one-time funding was intended to address pandemic related economic hardships, including accumulated arrearages of past due amounts for water and wastewater utility amounts. A subsequent appropriation of an additional \$500 million of one-time funding for this purpose was included in the American Rescue Plan Act of 2021 (P.L. 117-2).

Program development by the federal Department of Health and Human Services (HHS) on the new program and has just announced that it is releasing 15% of the total \$1.1 billion to the states,

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<sup>1</sup> See figures in Attachment 1 that provide some additional data on state/local versus federal infrastructure spending from Congressional Budget Office reports <https://www.cbo.gov/publication/55375> and <https://www.cbo.gov/publication/54539>

although states have to develop a proposed program that meet HHS’ program requirements, including engaging both a representative advisory committee in the development and providing for public review prior to finalizing the program for implementation. California’s total share of these one-time funds is \$116.5 million, while widely circulated news coverage early in 2021 indicated that accumulated water utility debt for California water providers at that point was more than \$1 billion.

The scale of the pandemic-driven water utility arrearages, the ongoing and most-likely growing affordability challenges for water service customers, along with the increasing recognition that equitable access to water is needed for public health and safety and is more and more being described, and appropriately so, as a human right,<sup>2</sup> means that one-time funding provides only a highly limited solution to the reality of the situation.

New York’s Representative John Katko and Delaware’s Representative Lisa Blunt Rochester have recognized the inadequacy of approaches depending on one-time funding and recently introduced H.R. 3293, the bi-partisan Low-Income Water Customer Assistance Program Act of 2021 to address the need for ongoing funding. This program would be developed and overseen by the federal Environmental Protection Agency (EPA), a change that aligns with EPA’s oversight authority for water and wastewater services with responsibility for water rate-payer assistance.

**DISCUSSION:** Water staff has been monitoring state and federal developments on both one-time potential on-going programs and funding proposals for various water service rate-payer assistance programs. Given emerging and potentially fast-moving state and federal initiatives related to low-income water rate assistance programs, a Council action supporting broad support for these kinds of initiatives would allow the Council to weigh in in support of or to provide substantive feedback related to various program or legislative proposals. Action on this recommendation would authorize the Mayor to engage in communication and outreach on behalf of the City and the Council to support programs or legislative initiatives to address current and future water affordability issues.

**FISCAL IMPACT:** No fiscal impact to the City at this time. Significant community and community-member based benefits from approval and implementation of a water rate-payer assistance program for qualifying low-income water service customers.

Prepared by:

Submitted by:

Approved by:

Rosemary Menard  
Water Director

Rosemary Menard  
Water Director

Martín Bernal  
City Manager

Attachments: Attachment 1 Figures on state/local and federal spending on infrastructure from Congressional Budget Office Reports

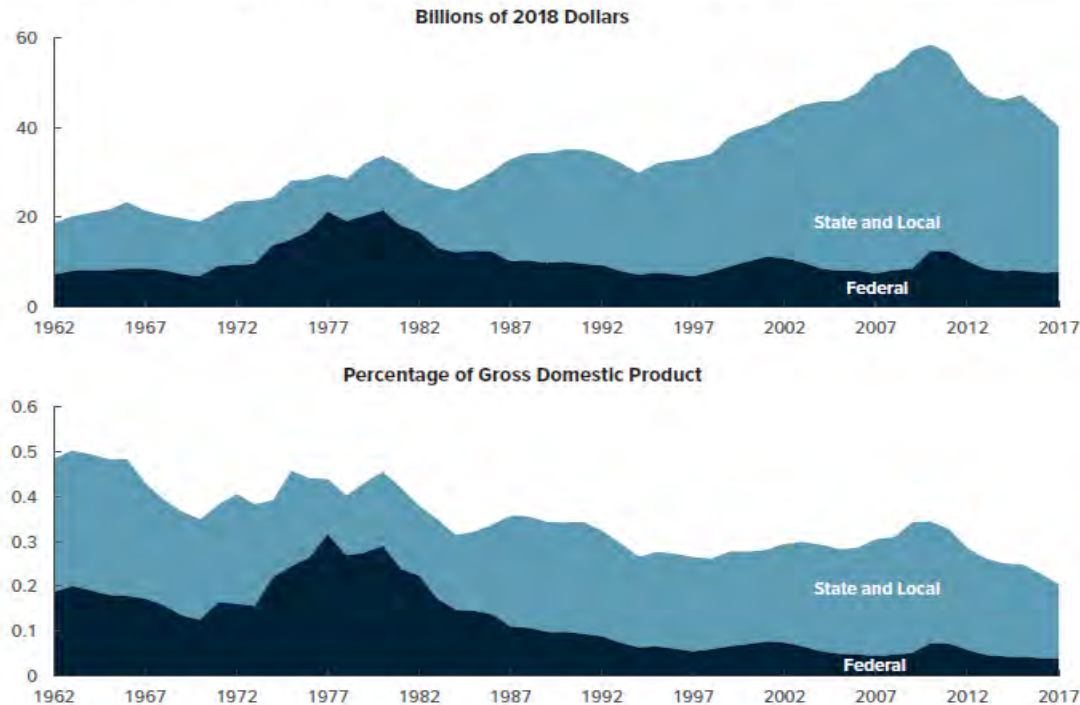
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<sup>2</sup> See California’s 2012 AB 685, Human Rights to Water legislation at [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201120120AB685](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120AB685)

## ATTACHMENT 1

Exhibit 16.

### Water Infrastructure: Sources of Nondefense Investment, 1962 to 2017



Source: Congressional Budget Office, using data from the Office of Management and Budget, the Census Bureau, and the Bureau of Economic Analysis.

Most state governments and many localities use a fiscal year that starts on July 1 and ends June 30. CBO adjusted the data to report spending by those governments during the federal fiscal year, which begins on October 1 and ends on September 30.

In 2017, the federal government spent about \$8 billion and state and local governments spent \$33 billion on investment in water infrastructure such as dams, levees, water distribution systems, and wastewater treatment facilities.

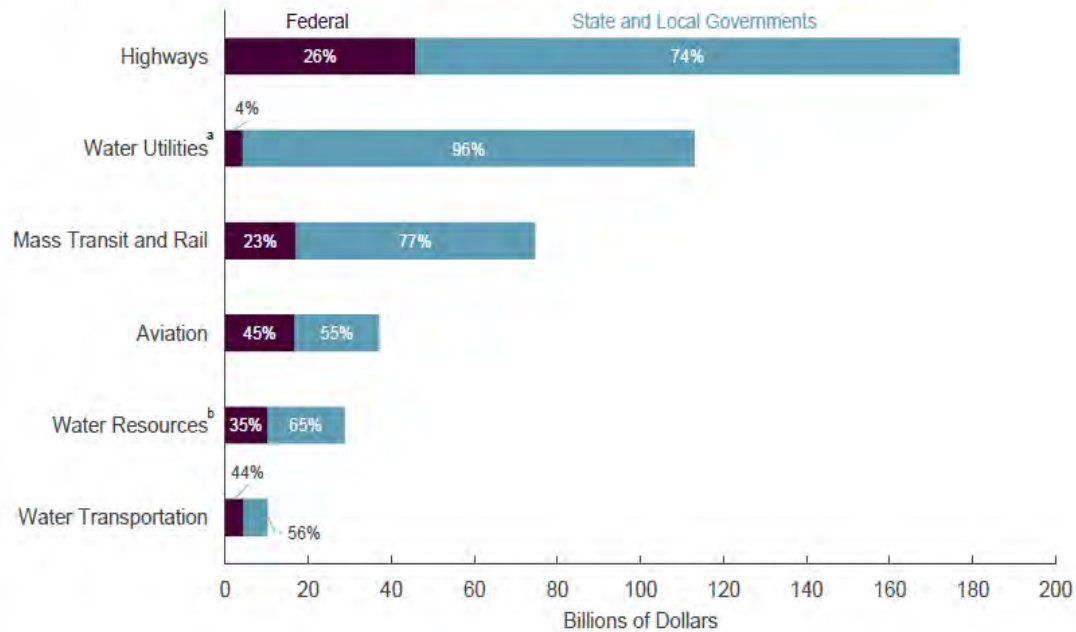
From the early 1960s through the early 1970s, federal investment in water infrastructure averaged about two-thirds the amount of state and local investment, but in the late 1970s, it climbed to more than two-and-a-half times the state and local amount. That increase reflected provisions of the Clean Water Act that required and funded greater efforts to clean wastewater before discharging it into waterways. Similarly, a smaller increase in federal investment in the late 1990s reflected amendments to the Safe Drinking Water Act to help local water utilities buy technologies to reduce contaminants. The uptick in federal investment during the 2010–2012 period was associated with the American Recovery and Reinvestment Act of 2009.

Other than those increases, the federal role in water infrastructure has declined over the past few decades. However, increases in state and local funding more than compensated, so that in inflation-adjusted dollars, total investment in physical capital for water infrastructure climbed from the mid-1990s through the early 2010s and—even with recent declines—remained above the level of the mid-1990s. As a share of gross domestic product, however, total investment was at a 55-year low in 2017. ♦

ATTACHMENT 1

CBO

### The Federal Government's and State and Local Governments' Spending on Transportation and Water Infrastructure, by Type of Infrastructure, 2017



Source: Congressional Budget Office, using data from the Office of Management and Budget and the Census Bureau.

a. Includes water supply and wastewater treatment facilities.

b. Includes water containment systems (dams, levees, reservoirs, and watersheds) and sources of freshwater (lakes and rivers).

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<https://www.cbo.gov/publication/54539>

# ACWA ADVISORY

LEGISLATIVE | DROUGHT, COVID-19 FUNDING  
June 28, 2021

## Governor Newsom and Legislature Reach Tentative Agreement on Drought and COVID-19 Water Arrearage Funding

Governor Newsom and legislative leaders have reached a tentative agreement to provide more than \$2 billion for drought infrastructure funding and \$1 billion for water arrearages that resulted from the COVID-19 pandemic.

The tentative agreement would allocate funding for drought relief, multi-benefit projects, Sustainable Groundwater Management Act (SGMA) implementation, conveyance projects, septic to sewer conversions, recycled water projects, groundwater remediation, and other drinking water and wastewater projects.

The agreement passed out of the Senate Budget and Fiscal Review Committee today and will now head to the Senate floor for a vote of the full Senate. If passed by the Senate, it will go to the Assembly for a floor vote. If it passes both houses it will go to the governor for signature.

ACWA staff has been advocating extensively for investments in water infrastructure through state funds (such as the General Fund and/or general obligation bond funds) and federal funds. This advocacy has included strong support for conveyance, SGMA implementation, groundwater remediation, recycled water projects, and other funding categories. ACWA has provided funding recommendations to Newsom Administration officials, Senate and Assembly leadership, testified during budget subcommittees, and advocated to dozens of legislators and their staff.

Some of the funding will go through existing funding programs. The details for some categories may be established through subsequent budget trailer bills.

ACWA has also been advocating extensively for the funding for COVID-19-related arrearages. The details are expected to be in a budget trailer bill. ACWA is actively engaged in this work and will keep members informed about program details as they become available.

The budget bill “junior,” [AB 129](#) (Ting D-San Francisco), which went into print today, proposes the following categories and amounts:

- \$663 million to the Department of Water Resources for the following projects and programs
  - \$200 million for small community drought relief
  - \$100 million for urban community drought relief
  - \$200 million for multi-benefit projects
  - \$60 million for SGMA implementation
  - \$100 million for conveyance projects
  - \$3 million for immediate drought support
- \$1.385 billion to the State Water Resources Control Board for the following projects and programs.
  - \$650 million for drinking water projects with priority given to disadvantaged communities

- o \$650 million for wastewater projects with priority given to septic-to-sewer conversions with local investment for wastewater projects
- o \$85 million for groundwater cleanup and recycled water projects
- **\$985 million to the State Water Board for water arrearages due to COVID-19**

This funding, if approved, will help to address some immediate drought-related issues. Additional funding is still needed to increase California’s water resilience. ACWA will continue to advocate for further investments, particularly in the areas of dam safety, conveyance, PFAS remediation, recycled water, flood protection and other categories.

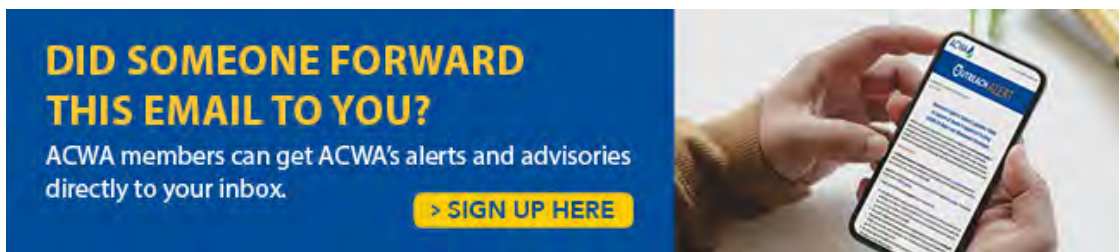
AB 129 also includes a section that proposes additional funding that is **contingent upon the enactment of future legislation**. This contingent proposal would appropriate \$2.5 billion from the General Fund for the following purposes:

- \$730.7 million for a water and drought resilience package
- \$440 million for a climate resilience package
- \$200 million for an agricultural package
- \$65 million for a circular economy package
- \$200 million for local parks grants
- \$258 million for a wildfire prevention and forest resilience package
- \$500 million for supporting affordable student housing projects for the University of California, the California State University, and the California Community Colleges, as well as for support of campus expansions for the University of California and the California State University
- \$4.68 million for a climate-related service program
- \$67.5 million for the California Access to Justice program

ACWA staff will continue to actively advocate for funding and for reasonable implementation details.

## Questions

For questions about proposed funding for water infrastructure and COVID-19 debt relief, please contact Deputy Executive Director for Government Relations [Cindy Tuck](#) or ACWA Director of State Relations [Adam Quiñonez](#).



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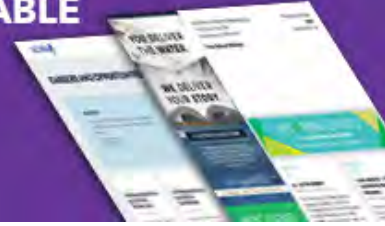




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**Budget Language**

For the California Arrearage Payment Program at the Department of Community Services and Development...\$1,000,000,000

For the California Arrearage Payment Program at the State Water Resources Control Board...\$1,000,000,000

Appropriation of these funds is contingent upon enactment of subsequent trailer bill language related to the distribution of these funds.

Schedule:

(1) For financial assistance to customers of local publicly owned electric utilities...\$300,000,000

(2) For financial assistance to customers of investor-owned utilities...\$699,500,000

(3) For financial assistance to customers of electrical cooperatives...\$500,000

(4) For financial assistance to customers of community water systems and wastewater treatment providers...\$1,000,000,000

**Senate Proposal: Trailer Bill Language - Water Systems and Wastewater Providers**

(a) The California Arrearage Payment Program for Water Systems and Wastewater Providers is established at the State Water Resources Control Board.

(b) The following definitions apply:

(1) Water and wastewater applicant means:

(i) "Community water system" as defined in Section 116275 of the Health and Safety Code.

(ii) "Wastewater treatment provider," which includes, but is not limited to, a city, county, special district, or joint powers authority that provides wastewater collection, treatment, or disposal service.

(2) "Board" means the State Water Resources Control Board.

(3) "COVID-19 pandemic bill relief period" is defined as the period starting March 4, 2020 and ending June 30, 2021.

(4) "Past due bills" is defined as customer bills that are 60 days or more past due and includes both active and inactive accounts, as well as customer accounts that have payment plans or payment arrangements.

(c) Within 60 days of receiving funds pursuant to the state budget, the board shall accept applications from water and wastewater applicants to receive funds to assist customers who have past due bills during the COVID-19 pandemic bill relief period.

(1) There shall be a 60-day application timeframe in which a water and wastewater applicant may apply to the department.

(2) In reviewing applications received, the board shall determine the total amount of financial assistance requested by water and wastewater applicants on behalf of their customers. The

department shall disburse funds no later than 30 days after the application timeframe in (1) concludes.

(3) (i) If there are insufficient funds to meet the total amount of assistance requested by water and wastewater applicants, the board shall disburse the money on a proportional basis to each water and wastewater applicant in accordance with the allocation as provided by the 2021-2022 budget schedule.

(ii) Proportional basis shall mean an equivalent reduction in disbursed funds for each water and wastewater applicant that is based on the percentage of the shortfall between total assistance requested and total assistance available for disbursement.

(4) In applying for funds on behalf of their customers, a water and wastewater applicant shall calculate the total amount of outstanding past due bills that have accumulated during the COVID-19 pandemic bill relief period. The calculations shall include documentation to support the amount of outstanding customer arrears that were incurred during that period. The general manager, utility director or his or her designee shall attest that the application is true and accurate.

(5) The following customer classes may be considered as eligible for the funding and may be included in the application:

(i) Residential customers.

(ii) Commercial customers.

(d) Upon receipt of funds from the board, a water and wastewater applicant shall notify customers with active accounts of available funds to help address past due bills incurred during the COVID-19 state of emergency. A water and wastewater applicant shall accept applications from active account customers for no shorter than 30 days, but no longer than 60 days.

(1) In applying for assistance, a customer shall be required to attest in a format determined by the water and wastewater applicant that they have been financially impacted by COVID-19, such as a loss in work hours, pay, revenue, increased medical expenses or other financial impacts resulting from the COVID-19 state of emergency and associated shelter-in-place orders and other relevant public health measures.

(2) If customer need exceeds monies allocated by the board and the water and wastewater applicant received a proportional disbursement from the board pursuant to (b)(3), the water and wastewater applicant shall prioritize the following for assistance:

(i) Residential customers with active accounts, including those currently on a payment plan with the water and wastewater applicant. If feasible, water and wastewater applicants shall determine a method to prioritize low-income customers impacted by COVID-19 as outlined in (d)(1).

(ii) Small commercial customers, as defined by the water and wastewater applicant.

(3) Water and wastewater applicants may use existing programs to distribute funds if they prioritize customers who are low-income or have suffered negative economic consequences from the COVID-19 pandemic.

(4) A water and wastewater applicant may offer multiple application windows for customers.

- (5) For inactive accounts the water and wastewater applicant can apply funds without an application.
- (e) Upon approval of a customer application, a water and wastewater applicant shall apply the awarded amount to the customer's bill during the next applicable billing cycle. The amount shall appear on the customer's bill, or through some other reasonable form of customer communication, as a credit and shall be identified as a California Arrearage Payment Program credit as a separate line item if feasible.
  - (f) (1) If the awarded amount is not sufficient to resolve the customer applicant debt, the customer applicant shall be given a notice that they may enter into a payment plan within 30 days of the notice. As long as the customer applicant remains current on the payment plan, the water and wastewater applicant shall not discontinue service to the customer.  
  
(2) Service will not be discontinued due to non-payment for customers during the time when applications to the water and wastewater applicant are pending, and the water and wastewater applicant shall waive any associated late fees and accrued interest for customers that are awarded monies.
  - (g) Any monies not awarded to customers within 1 year of receipt shall be remitted back to the board.
  - (h) Any customer information shall be subject to the provisions of Government Code Section 6254.16
  - (i) When funds are exhausted or money is remitted to the board, a water and wastewater applicant shall file a report with the board, as prescribed by the board, on how the monies were used to assist customers with arrearages. The report shall include total number of customers who applied for grant funding from water and wastewater applicant, total amount of customer applicant debt paid down, information related to customer classes assisted by the funding and documentation to support administrative costs.
  - (j) The board shall provide a report to the Legislature within six months of the deadline in (h).
  - (k) A water and wastewater applicant may use up to five percent of awarded funds for administrative purposes. A water and wastewater applicant may petition to the board to use an additional five percent of awarded funds for administrative purposes if it is determined by the board to be necessary to effectively distribute the funding.