



Monterey County

Item No.15

Budget Committee

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: BC 22-122

August 31, 2022

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Matter Type: Budget Committee

- a. Receive a report on Pajaro County Sanitation District's projected FY 2022-23 budget deficiency and consider staff's potential approaches to addressing the deficiency; and
- b. Provide direction to staff.

RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive a report on Pajaro County Sanitation District's projected FY 2022-23 budget deficiency and consider staff's potential approaches to addressing the deficiency; and
- b. Provide direction to staff.

SUMMARY/DISCUSSION:

Background

The County-owned Pajaro County Sanitation District (PCSD) is in northern Monterey County, as shown in Attachment A. The PCSD consists of a wastewater collection system of approximately 16.5 miles of gravity sewer pipe, six (6) pump stations, and approximately 2.4 miles of force sewer main. There are approximately 1,047 sewer connections and 1,768 billing units.

PCSD is a collection system only and does not provide wastewater treatment. Instead, collected sewage is pumped to the City of Watsonville (City) wastewater treatment plant (plant) and, under an agreement with the city, the plant accepts and treats sewage. The PCSD is charged for its share of the plant's costs based on its fraction of total wastewater received by the plant and the strength of received wastewater. (Wastewater strength refers to the levels of Total Suspended Solids (TSS) and Biological Oxygen Demand (BOD) in the wastewater. High/Low strength wastewater refers to TSS and BOD levels above/below that of typical domestic wastewater.)

The Public Works, Facilities and Parks Department (PWFP) is implementing several water and sewer infrastructure repair and improvement projects funded with American Rescue Plan Act (ARPA) funds. The projects include approximately \$2 million of capital improvements to the PCSD system, including cleaning and repairing sewer lines, manholes, and pump stations. These improvements are expected to be completed by mid-2023.

Efforts are also underway to sell the PCSD system to an experienced operator per prior Board direction.

Projected Budget Shortfall

The PCSD is expected to incur costs greater than anticipated revenues in FY 2022-23. Estimated PCSD revenue is approximately \$911,500, while expenses are expected to total approximately \$3,329,000 in the current FY 2022-23. This difference, including an approximate \$77,400 carryover shortfall from FY 2021-22, equates to a budget shortfall of approximately \$2,494,900. PWFP recognized the projected shortfall during the development of the proposed FY 2022-23 budget and submitted an augmentation request for the shortfall amount. This was intended to provide needed funding for the PCSD system through FY 2022-23 so that a Proposition 218 process could be conducted to establish updated service rates that would generate sufficient ongoing revenue. Unfortunately, the augmentation request was not recommended for funding by the County Administrative Office due to budgetary constraints. The Board of Supervisors did not provide funding during the FY 2022-23 budget hearings after PWFP presented on the augmentation request need. Staff projects that the PCSD will enter a negative appropriation position in October.

The cost increases are primarily attributable to the significant increase in the City's treatment plant capital improvement costs and the increasing strength of PCSD wastewater, which increases the fraction of the City's costs to operate and maintain the plant for which PCSD is responsible. The actual and projected PCSD cost increases are illustrated in Attachment B. Actual and projected plant capital improvement costs are presented in Attachment C, and are shown graphically in Attachment D. Regarding the increase in wastewater strength, the County's fraction of plant operations costs is based on the following parameters: PCSD flow to the plant, and the levels of TSS, and BOD in the wastewater. While the flow has stayed relatively constant over the past several years, TSS and BOD are projected to increase significantly. These increases are likely the result of PCSD's commercial customers discharging wastewater of higher-than-normal strength into the system.

Efforts are currently underway to lower these costs, including working with the City to amortize its projected capital improvement costs over time, identifying ways to lower TSS and BOD values (and thus reduce the fraction of Operating costs for which PCSD is responsible), identifying those customers who are discharging relatively large quantities of high strength wastewater into the system (and increasing their rates accordingly), and implementing (as part of current ARPA upgrades) methods to reduce wastewater strength before entering the plant. The City has also applied for grant funding to help defray the high capital costs. To that end, the County submitted a letter of support for inclusion in the grant application package.

Customer Service Rates Update

In light of the projected budget shortfall and progress on PCSD system repairs and condition assessments under the ARPA program, work has been accelerated to develop proposed updated rates for approval via a required Proposition 218 process. Key considerations in developing proposed rates include:

- The projected FY 2022-23 budget shortfall;
- Repayment of an existing loan of approximately \$1,874,265 (which includes \$359,624 in FY 2016-17 and \$1,515,000 in FY 2017-18) from the General Fund to PCSD in 2018 for a five-year period after the establishment of new rates (unless the loan is forgiven or other funds

are allocated for loan payoff); and

- Future operating costs and reserves for anticipated future capital improvements/major maintenance.

The current average rate for one (1) billing unit in the PCSD is just under \$30 per month, which has not changed since 2007. Given this and to account for the items above, the proposed rates could be significantly higher. For example, service rates in the Chualar CSA-75 sanitary system were updated in 2018, where the base rate increased from \$13.92 to \$66.03. As detailed information is developed over the next few months, several options will be formulated to show the corresponding impact on service rates and obtain approval of a set of proposed rates emerging from the Proposition 218 process. Options could include funding the shortfall with other funds, forgiving the existing loan, paying it off with other funds, or spreading the cost of these items over time and in the new billing rates.

A Gantt chart showing the timeline for establishing and implementing final customer rates is presented in Attachment E. Draft final rates will be presented to the BC in November and then to the BOS in December, along with a recommendation from the BC to adopt a rate that balances paying down the loan and/or budget deficit with the customer's ability to pay the new service rates without undue economic hardship. As shown, final rate increases are scheduled to be implemented in February 2023.

Recommendation for Addressing Appropriation Shortfall

In light of these circumstances, the most immediate issue is the current fiscal year appropriations shortfall. The PCSD will run out of appropriations in October when ongoing monthly expenses will exceed the total annual revenue. To bridge the gap between October and when updated rates can be implemented, PWFP is seeking BOS approval of a loan in the amount of \$2,494,936, the projected budget shortfall. The loan will allow the PCSD to meet its financial obligations through this fiscal year when new rates will be in place. If the loan was interest-free and amortized over a 5-year period, the average increase in customer rates required to pay back the loan would be approximately \$23 per month. As discussed above, the actual rates will emerge from Proposition 218 process which are scheduled to be implemented in February 2023.

OTHER AGENCY INVOLVEMENT:

This item is scheduled for the Board of Supervisors' consideration, acting as the PCSD Board of Directors, at its regularly scheduled meeting on September 13, 2022.

FINANCING:

As shown in Attachment F, projected PCSD revenue for FY 2022-23 is \$911,462.00, while expenses, including a FY 2021-22 shortfall, are expected to total approximately \$3,406,397.82, which equates to a budget shortfall of \$2,494,935.82. If approved as a loan, staff recommends the budget shortfall is be repaid with simple interest at the County Treasury Investment Pool interest rate over a minimum 5-year period. This would be in addition to the 2018 loan in the amount of 1,874,265.

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Attachments:

Attachment A - PCSD Area Map

Attachment B - City of Watsonville WWTP Cost - Actual and Projected

Attachment C - City of Watsonville Capital Improvement Cost Projections

Attachment D - Graph of WWTP Capital Improvement Cost Projections

Attachment E - Rate Study Schedule

Attachment F - Financial Summary - FY 2021-22 and FY 2022-23