Monterey County

Item No.

Board Report

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

Legistar File Number: RES 22-176

September 27, 2022

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Current Status: Agenda Ready
Matter Type: BoS Resolution

Adopt a Resolution to:
a. Authorize the reallocation of unspent American Rescue Plan Act of 2021 (ARPA) funds of $1,178,797 to the Pajaro County Sanitation District;
b. Authorize and direct the Auditor-Controller to amend the Fiscal Year (FY) 2022-23 Adopted Budget for the General Fund, Fund 001, Other Financing Uses Appropriation Unit CAO017, to increase appropriations by $1,320,603, where the financing source is Cannabis Tax Assignment (001-3132) (4/5th vote required);
c. Authorize and direct the Auditor-Controller to amend the FY 2022-23 Pajaro County Sanitation District Adopted Budget, Fund 151, Appropriation Unit PFP047, to increase appropriations by $2,499,400, financed by an increase in ARPA revenues of $1,178,797 and an operating transfer in of $1,320,603 from General Fund, Fund 001, Other Financing Uses Appropriation Unit CAO017 to fund projected budget deficiency (4/5th vote required); and
d. Authorize and direct the Auditor-Controller to transfer $1,320,603 for the FY 2022-23 from General Fund, Fund 001, Other Financing Uses CAO017, to Pajaro County Sanitation District, Fund 151, Appropriation Unit PFP047, where General Fund Other Financing Uses has sufficient appropriations available to fund the transfer (4/5ths vote required).

<u>RECOMMENDATION</u>:
It is recommended that the Board of Supervisors adopt a resolution to:
a. Authorize the reallocation of unspent American Rescue Plan Act of 2021 (ARPA) funds of $1,178,797 to the Pajaro County Sanitation District;
b. Authorize and direct the Auditor-Controller to amend the Fiscal Year (FY) 2022-23 Adopted Budget for the General Fund, Fund 001, Other Financing Uses Appropriation Unit CAO017, to increase appropriations by $1,320,603, where the financing source is Cannabis Tax Assignment (001-3132) (4/5th vote required);
c. Authorize and direct the Auditor-Controller to amend the FY 2022-23 Pajaro County Sanitation District Adopted Budget, Fund 151, Appropriation Unit PFP047, to increase appropriations by $2,499,400, financed by an increase in ARPA revenues of $1,178,797 and an operating transfer in of $1,320,603 from General Fund, Fund 001, Other Financing Uses Appropriation Unit CAO017 to fund projected budget deficiency (4/5th vote required); and
d. Authorize and direct the Auditor-Controller to transfer $1,320,603 for the FY 2022-23 from General Fund, Fund 001, Other Financing Uses CAO017, to Pajaro County Sanitation District, Fund 151, Appropriation Unit PFP047, where General Fund Other Financing Uses has sufficient appropriations available to fund the transfer (4/5ths vote required).

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. FY 2021-22 ending Fund balance for PCSD is $4,959. Estimated FY 2022-23 PCSD revenue is approximately $911,462, while expenses are expected to total approximately $3,415,821, which equates to a budget shortfall of approximately $ 2,499,400. 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. The augmentation request was not recommended for funding by the County Administrative Office due to budgetary constraints. Staff projects that the PCSD will enter a negative appropriation position in October, at which time invoices can no longer be paid.

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. 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 has increased significantly. These increases may result from 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 two existing loans.
    - The 2017 Winter Storm loan of $1,874,264 was funded with Disaster Assistance Allocation (BSA 3126), pending FEMA determination and an insurance claim. These funds included $359,624 in FY 2016-17 and $1,515,000 in FY 2017-18 for the Sewer Spill, Manhole Repair and Generator Replacement. FEMA denied the claim due to deterioration and deferred maintenance and the County did not carry pollution insurance at the time of the event, so there was no coverage (note - coverage was secured in April 2019). Unless the loan is forgiven or other funds are allocated for loan payoff, the loan repayment term begins one year after a sewer rate increase has been established that include loan payback provisions.
    - The Las Lomas Lift Station loan for $67,397 was funded with General Fund Contingencies. Like the Winter Storm Loan, this loan has the same repayment terms.
- 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 (single family residence) 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 chart showing the timeline for establishing and implementing final customer rates is presented in Attachment B. Draft final rates will be presented to the Budget Committee in November and then to the Board of Supervisors in December. As shown, final rate increases are scheduled to be implemented in February 2023.

Recommendation for Addressing Appropriation Shortfall

Considering these circumstances, the most immediate issue is the current fiscal year appropriations shortfall of $2,499,400. The PCSD will run out of appropriations in October 2022 when ongoing monthly expenses will exceed the total annual revenue. To bridge the gap between October and when updated rates can be implemented, PWFP coordinated with the County Administrative Office Budget & Analysis Division to identify funding options to address the projected budget shortfall. Recommended funding includes unspent ARPA funds, for the capital outlay portion ($1,178,797), and Cannabis Tax Assignment for the remainder ($1,320,603).

Another option would be an additional loan. This would increase PCSD's loan balance to $4,441,061. If a loan is approved, staff would recommend it be interest-free and amortized over a 5-year period. The average increase in customer rates required to pay back the loan would be approximately $42 per month. This amount would be in additional to a new monthly rate to be determined by the rate study. As discussed above, the actual rates will emerge from Proposition 218 process which are scheduled to be implemented in February 2023.

OTHER AGENCY INVOLVEMENT:

At its August 31, 2022 meeting, the Budget Committee received a report from staff regarding the PCSD's projected FY 2022-23 budget deficiency and potential approaches to addressing the deficiency. During the meeting, the Budget Committee was supportive of a loan to address the budget deficiency.

FINANCING:

As shown in Attachment C, the PCSD has a beginning fund balance of $4,959 and projected revenue for FY 2022-23 is $911,462. Expenses are expected to total approximately $3,415,821, which equates to a budget shortfall of $ 2,499,400. If approved, financing would be provided by unspent FY 2021-22 ARPA funds for the capital outlay portion ($1,178,797), and Cannabis Tax Assignment for the remainder ($1,320,603). The specifics regarding ARPA unspent source will be discussed during the presentation. The Cannabis Tax Assignment Balance is $2,070,116, which if approved, would be reduced to $749,513.

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The following attachments are on file with the Clerk of the Board:
Attachment A - PCSD Area Map
Attachment B - Rate Study Schedule
Attachment C - Financial Summary
Attachment D - Resolution