SEWER AUTHORITY MID-COASTSIDE

Staff Report

TO: Honorable Board of Directors

FROM: Beverli A. Marshall, General Manager

DATE: July 24, 2017

SUBJECT: **Adopt A Resolution Approving and Adopting the JPA General Budget for Fiscal Year 2017/18**

Staff Recommendation

Staff recommends that the Board of Directors adopt a resolution (next number in sequence) approving and adopting the JPA General Budget for Fiscal Year 2017/18.

Fiscal Impact

The fiscal impact of the JPA General Budget for Fiscal Year 2017/18 is $5.21 million. This is an *overall increase* of $1.00 million from the FY 2016/17 Budget. The increase is primarily due to the significant increase in proposed infrastructure projects. The impact to the member agency assessments is (rounded to nearest $):

JPA Assessments for Each Member Agency

	FY 2016/17	FY 2017/18	$ Change	% Change
Half Moon Bay	$2,086,121	$2,688,597	$ 602,476	29%
GCSD	$1,182,816	$1,349,449	$ 166,633	14%
MWSD	$ 848,240	$1,113,523	$ 264,283	31%
Total	$4,117,177	$5,150,570	$1,033,393	25%

Staff continues to investigate the possibility of grants and loans to alleviate the burden of the infrastructure projects on the member agency assessments.

Strategic Plan Compliance

The recommendations in the revised General Budget comply with the SAM Strategic Plan Goal 3: *"Consider long-term costs, and ensure that finances are stable and understandable by the board, member agencies, and the public."*

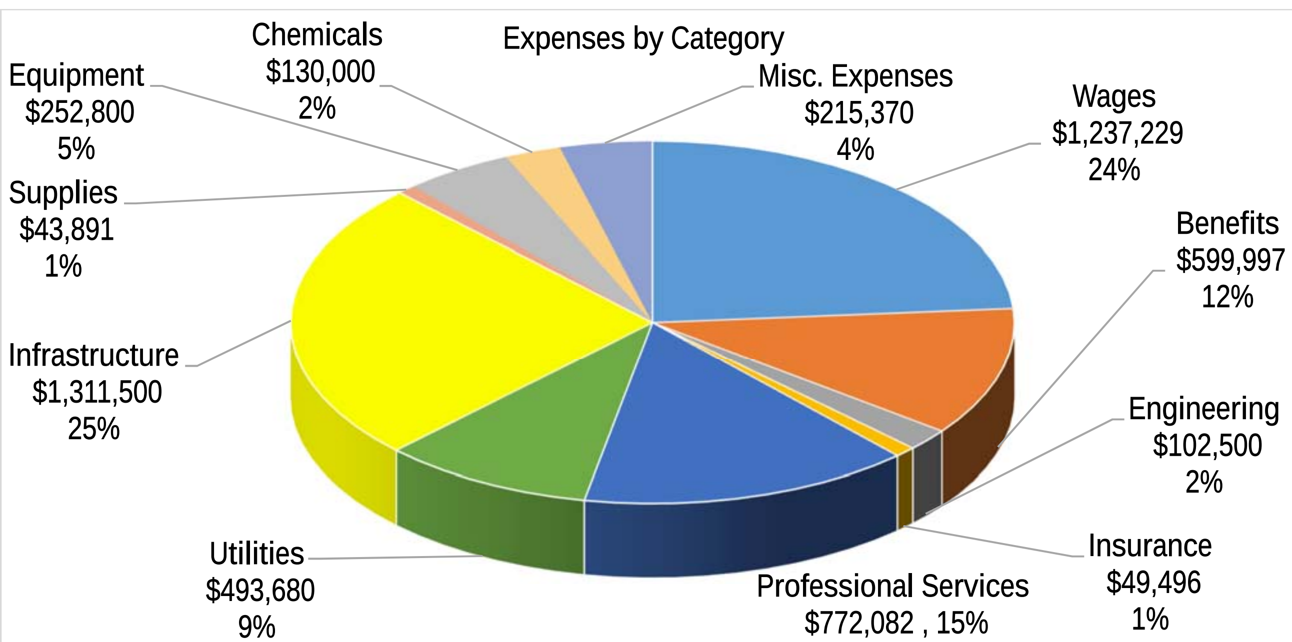
Background and Discussion/Report

The JPA General Budget for FY 2017/18 is presented to the Board of Directors for approval and adoption. The budget includes obligations for wages and benefits defined in employment and bargaining contracts, increases in retirement contributions, and other non-discretionary expenses. Staff made the following assumptions in determining changes from FY 2016/17.

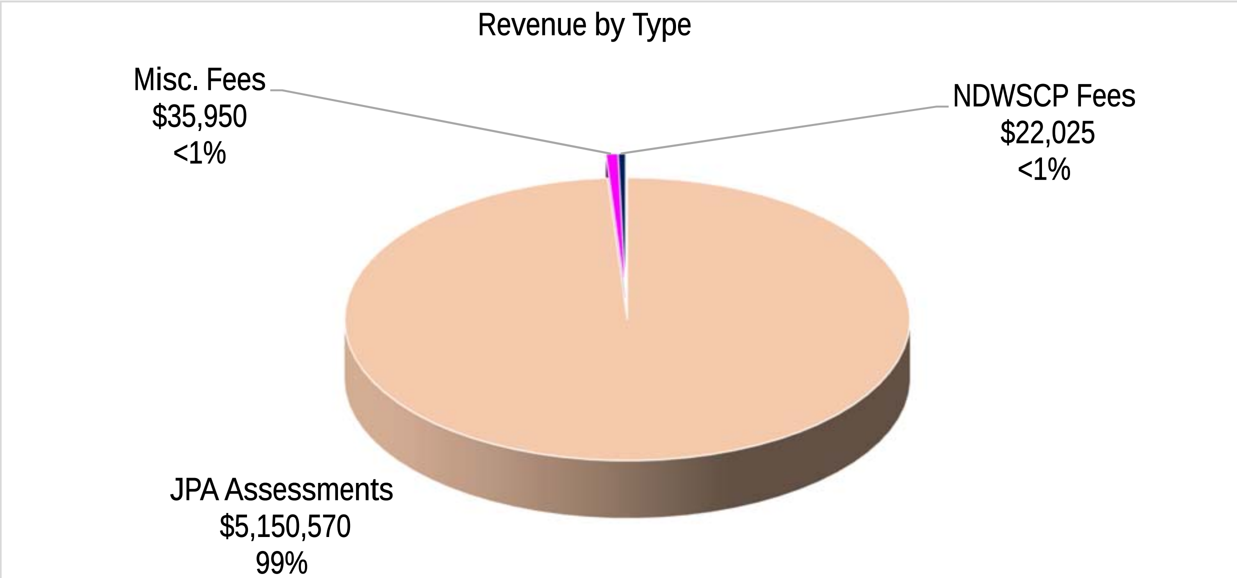
- The maximum funding available for infrastructure projects is $1.5 million.
- All three member agencies fully participate in all services.
- All budgeted positions will be filled if they become vacant.
- All applicable merit step increases will be earned per the MOU with Local No. 39.
- 1.5% of payroll will be set aside for OPEB costs.

Budget Overview

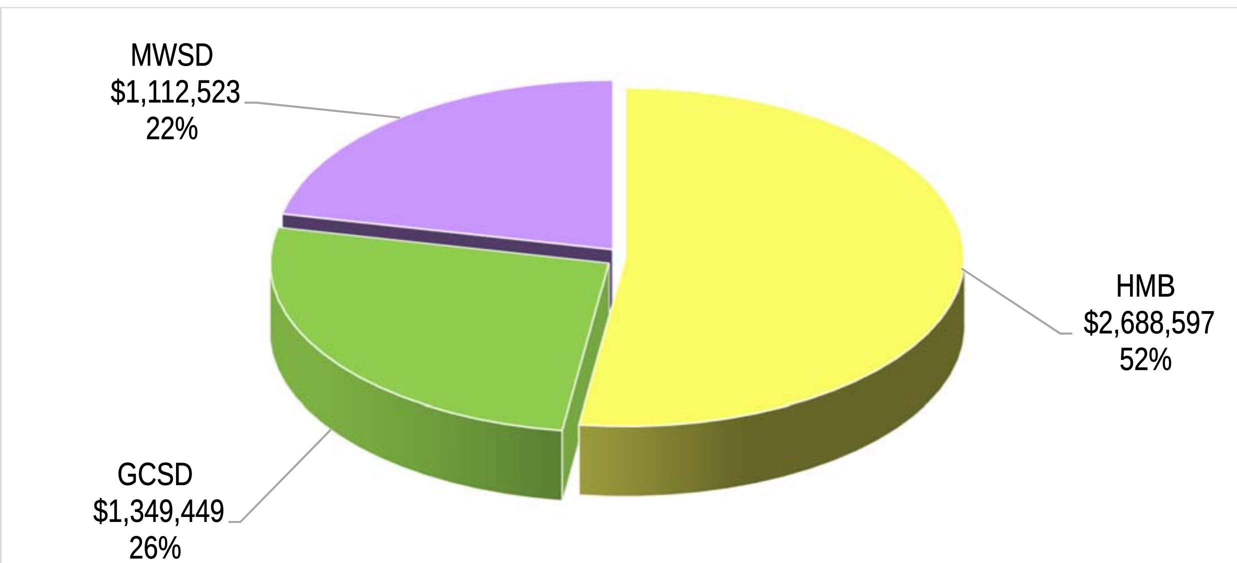
Of the total JPA General Budget expenses, 24% is for wages and 12% is for benefits. The cost of infrastructure projects and engineering is 27%. Professional services provided by outside vendors is also a significant amount (15% million) due to SAM's small staff size and dependency on vendors for technical and specialized services.



Of the total JPA General Budget revenue, almost all of it (99%) is from the JPA assessments to the member agencies assessments, which is calculated based on the previous calendar year's flow percentages.

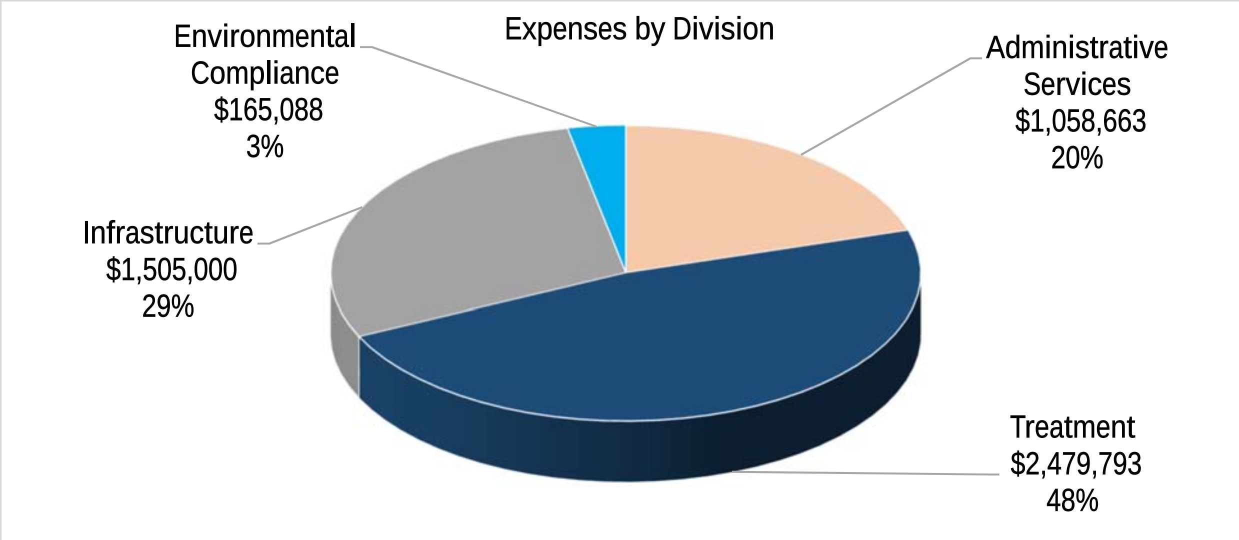


The allocation between the member agencies is reflected in the following chart.



JPA Divisions

The JPA General Budget includes the Administrative Services, Treatment, Environmental Compliance, and Infrastructure divisions. Not surprisingly, the Treatment division has the largest share of the budget (48%) followed by Infrastructure (29%). The allocation of expenses between the divisions is reflected in the following chart.



The overall change in the JPA budget is due to: increases in wages for cost of living adjustments; increases in CalPERS rates for classic members; increases in retirement medical contributions to meet GASB requirements for other post-employment benefits (OPEB); shifting staff time from the Infrastructure budget to Treatment for general support; shifting staff time to Contract Collection Services for inspections (F.O.G.) that was previously charged to the Environmental Compliance budget; increases in the membership dues and certification fees to various professional organizations; shifting training and travel to Treatment to support staff development that was previously charged to Contract Collection Services; increases in equipment to purchase a new server and related equipment in the Administrative Services division and a replacement truck (Operator) for the Treatment division. The reason that the assessments increased more than the budgeted expenses is that the F.O.G. inspection fees were shifted to the contract collection services divisions along with the related expenditures.

The Infrastructure division budget increased from $746,074 in Fiscal Year 2016/17 to $1.50 million (264%). This change is due to: increases in wages for cost of living adjustments; shifting staff time from the Infrastructure budget to Treatment for general support; and funding projects to replace segments of the Force Main that have failed due to age and stress.

Changes in Budget Categories

The significant overall changes in the budget categories are as follows.

1. Wages: increased for negotiated COLA of 3%; application of step increases, where appropriate; eliminated .50 FTE Accounting Technician position.

2. Premium Pay: increased $15,182 for negotiated changes in standby pay, certification pay, and overtime pay for work performed outside of normal working hours effective July 1, 2016, but not adopted until September 26, 2016. This also reflects a change in the Supervisor of Treatment/Field Services from non-exempt to exempt for the purposes of overtime.

3. Health Benefits: *decreased* $28,132 based on elimination of .50 FTE Accounting Technician and negotiated changes in benefits effective July 1, 2016, but not adopted until September 26, 2016.

4. Retirement Contributions: increased $52,277 due to changes in the CalPERS contribution rates for classic members.

5. Retirement Medical: increased $16,788 (1.5% of wages) for contributions for OPEB as required by GASB.

6. Misc. Benefits: *decreased* $12,038 for negotiated changes in benefits effective July 1, 2016, but not adopted until September 26, 2016.

7. Legal Services: *decreased* $8,160 based on projected costs for FY 2016/17.

8. Engineering Services: *decreased* $31,550 to reflect fewer projects requiring design and project management services. Design services for the Force Main Replacement Project were primarily completed as part of the FY 2016/17 budget.

9. Professional Services: increased $3,818 and includes ongoing services that are specialized and need to be performed by consultants and the following one-time needs.

   - $10,000 for communications plan as identified in the Strategic Plan.

   - $32,500 to fund two years (FY 2017/18 and FY 2018/19) of the First Flush program provided by SMCRCG.

10. Professional Memberships: increased $11,055 and reflects rate increases as well as new memberships in local organizations (Rotary, Chamber of Commerce, San Mateo County Employee Relations Consortium) and an increase in certification fees for negotiated changes in minimum requirements, effective July 1, 2016, but not adopted until September 26, 2016.

11. Printing/Advertising: *decreased* $1,301 based on projected FY 2016/17 expenses.

12. Insurance Premiums: *decreased* $3,879 to reflect retroactive premiums and anticipated adjustments in property, liability, and professional liability premiums related to JPA activities.

13. Utilities: increased $14,080 for electricity, gas, and water based on projected FY 2016/17 expenses and anticipated rate increases.

14. Misc. Expenses: increased $46,749 reflects a reallocation of expenses from the various categories to correct GL account lines in the accounting software.

15. Travel & Training: increased $11,000 reflects shifting expenses to Treatment for staff development that was previously charged to Contract Collection Services. This line item will need to be increased if directors plan to attend conferences in FY 2017/18.

16. Building & Maintenance Services: increased $60,049 for contractors to perform deferred maintenance tasks at the treatment plant and pump stations.

17. Chemicals: *decreased* $20,500 based on reduced rates through participation in the Bay Area Chemical Consortium. Total savings of approximately $60,000 from rates prior to joining the consortium.

18. Permits & Licenses: increased $7,500 for anticipated changes in permit fees as well as more permits for proposed infrastructure projects.

19. Supplies: *decreased* $40,168 based on projected FY 2016/17 expenses.

20. Equipment: *decreased* $17,203 to reflect the shift of projects from replacement of equipment to replacement of Force Main segments.

21. Tools: increased $5,000 for replacement of tools that have worn out and to make sure spares are available in an emergency.

22. Infrastructure: increased $1.31 million to replace segments of the Force Main that have failed due to age and stress.

Challenges

SAM's Reserve Policy requires a balance of two months of operating reserve ($868,091) and $1.25 million in emergency repair reserve for a total reserve of $2,118,091. As of April 30, 2017, SAM had $1,388,630 invested with LAIF, which is the total of SAM's reserve funds. To be compliant with the reserve policy, $729,461 needs to be provided by the member agencies to meet the reserve minimum in addition to the assessments needed to pay for FY 2017/18 expenses. Staff did not incorporate this additional funding in the revised budget due to the impact it would have on the member agency assessments.

Cash flow will be an issue in FY 2017/18 due to the timing of infrastructure projects. Assessments are billed in equal installments each month, which generally matches the expenditure outlays related to operating costs such as wages, benefits, and recurring services (janitorial, utility, etc.). Infrastructure costs are incurred based on the timing of the planned or emergency work, which is often driven by weather or project timing, and could result in a significant cash outlay at the beginning of the fiscal year during the Summer and Fall, when much of the activity occurs, and prior to assessments being received to cover the cash outlay. This could result in a need to bill infrastructure up front rather than in twelve equal installments. ***If the budget is approved, staff requests that the portion of the assessments related to Infrastructure be split into 6 equal payments and billed the first 6 months of the fiscal year.***

CalPERS has notified participating agencies of its change in discount rate and how the current smoothing process will increase contribution rates. This will continue to be significant cost until the workforce transitions to all classic employees being retired.

The JPA General Budget was discussed by the Board of Directors at the regular meetings on March 27, April 10, May 8, May 22, and June 12, 2017. The Board requested that staff meet with the member agency managers and sewer engineers to identify ways to reduce the budget and reprioritize infrastructure projects to lessen the impact on agency assessments. Staff met and discussed the budget and the Infrastructure projects on May 11 and 12. The following is a summary of recommendations made by one or more of the managers/engineers during those discussions.

- Revise approved 5-Year Infrastructure Plan to reprioritize projects based on current circumstances and stretch the projects over a longer period (i.e., 10 to 20 years).
- The updated Infrastructure Plan needs to be discussed and accepted by the member agency managers/engineers first and then the member agencies before it is presented to the SAM Board for approval and implementation.
- SAM needs to be conservative in what it says it can accomplish (don’t overpromise).
- Cap Infrastructure spending at what the member agencies can comfortably afford (approx. $1.5 million in FY 2017/18) and focus on the IPS segments that are leaking.
- Write bid documents to contain mobilization costs.
- Need to think of SAM budget like personal finances vs. government spending.
- Be more conscientious of rate payer impact.

- Underbudget for non-fixed costs and ask for more mid-year, only if needed.
- SAM staff need to do more of the work and depend less on contractors (cut by 50%).
- Key budget lines to reduce: Professional Services and Building & Maintenance Services.
- Key budget lines to eliminate: Vehicle Replacement funding, Equipment.
- Need to evaluate number of staff in each position – may be overstaffed.
- SAM is facing a dire situation and needs to strip the budget bare.
- Provide more information of SAM's funding options: loans, bonds, etc., to lessen the impact on member agency assessments and rates.

Staff did not include all of the member agency/engineer recommendations in the revised budget. It does include reprioritization of the projects and capping the Infrastructure division budget at $1.5 million.

As of July 19, 2017, Granada Community Services and Montara Water & Sanitary District approved the budget as presented. The City of Half Moon Bay adopted the O&M budget but did not approve the Infrastructure portion. Staff asks that the Board for direction to approve and adopt the JPA General Budget for FY 2017/18.

Supporting Documents

Attachment A: List of Strategic Plan Goals and Infrastructure Projects for FY 2017/18
Attachment B: JPA General Budget for FY 2017/18

Attachment A

Strategic Plan Goal	Cost	Priority	Included in Revised Budget
Develop Communications Plan	$ 10,000		Yes
	$ 10,000		
Set Reserve Standards & Fund	$ 726,040		No
Resolve IPS Funding Issue (Who Pays for What)	$ 25,000		No
Develop Succession/Staffing Plan	$ 25,000		No
Ensure Adequate Staff Training and Development	$ 25,000		No
Clarify Roles of Manager and Member Managers	$ 5,000		No
Extrapolate 20-year Asset Management Plan	$ 100,000		No
Ensure SAM in Compliance with Regulatory Req	$ 50,000		No
New CCS Agreement	$ 5,000		No
Emergency Plan	$ 10,000		No
	$ 971,040		

Infrastructure Project	Cost	Priority	Included in Revised Budget
Force Main: Replace Segments 1, 2, 3, and 4	$ 1,430,000	1	Yes
Portola Pump Station: Replace Surge Tank	$ 75,000	1	Yes
	$ 1,505,000		
Force Main: Replace Segments 1, 2, 3, and 4	$ 1,470,000	1	No
WWTP: Replace Chemical Metering Pumps	$ 75,000	2	No
WWTP: Replace Burner System for Boilers	$ 55,000	3	No
WWTP: Replace Stainless Steel Heat Exchanger/Shell	$ 100,000	3	No
Princeton Pump Station: Replace Station	$ 700,000	4	No
Portola Pump Station: Replace Pump 1	$ 200,000	4	No
Princeton Pump Station: ATS	$ 75,000	4	No
Princeton Pump Station: Assess & Repair Rainwater Issues	$ 50,000	5	No
WWTP: Install WAS Gravity Thickener	$ 300,000	5	No
	$ 3,025,000		

SEWER AUTHORITY MID-COASTSIDE

PROPOSED JPA GENERAL BUDGET
FISCAL YEAR 2017/18
JUNE 12, 2017

SEWER AUTHORITY MID-COASTSIDE
JPA GENERAL BUDGET
FISCAL YEAR 2017/18

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SUPERVISOR OF TREATMENT/FIELD OPERATIONS
TIM COSTELLO

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