

STAFF REPORT

TO: Sewerage Agency of Southern Marin Board of Commissioners

FROM: Mark Grushayev, Wastewater Treatment Plant Director

VIA: Eric Erickson, Finance Director

SUBJECT: SASM Budget for FY 2020-21

DATE: May 21, 2020

1 **ISSUE:**
 2 Review the Budget draft for Fiscal Year 2020-2021.

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 4 **RECOMMENDATION:**
 5 Receive presentation on the proposed FY 2020-21 budget and approve or provide direction to staff.

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 7 **BACKGROUND:**
 8 The Operation and Maintenance Agreement (O&M Agreement) executed on April 19, 2011 between
 9 the City of Mill Valley (City) and Sewerage Agency (SASM) requires the City to operate, maintain
 10 and manage all of the wastewater treatment and disposal facilities owned by SASM. The City’s scope
 11 of services includes, but is not limited to, providing administration, preparing annual budgets; entering
 12 into contracts to employ agents, consultants and employees; maintaining, operating and managing
 13 SASM’s buildings.

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 15 In accordance with the O&M Agreement, the City’s staff annually prepares a budget for review
 16 and approval by the SASM Board of Commissioners. This draft budget is developed by evaluating
 17 the previous year’s budget and taking into consideration any deviations that occurred, as well as
 18 completed, ongoing and initiated projects. It is written for the Operation, Maintenance, Financial
 19 Management, Administration, and Capital Improvement of all facilities owned by SASM.

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 21 Staff also prepares the Annual Report and Work Plan for the Board’s review and approval. This Work
 22 Plan was presented and discussed at the Annual Strategic Planning Session on April 19, 2019.

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 24 **Budget Information:** The SASM Board adopted the current O&M Budget at the June 20, 2019
 25 meeting. The following is a summary of budget activities as of April 1, 2020 (75% of FY
 26 complete):
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Category	Budgeted	To Date (03/31/ 2020)	Percent Completed
O&M	\$6,028,733	\$5,201,585	86.3%

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DISCUSSION:

NEW FISCAL YEAR 2020-2021

The proposed draft budget for Fiscal Year 2020-21 is designed to follow the Board’s planning efforts and intended to implement the Mission Statement and Statement of Goals as well as meet the elements of the Work Plan.

The proposed budget is comprised of three sections: Operations and Maintenance, Capital Improvement Projects, and Revenue. The overall proposed budget reflects an increase of \$171,591, which is 2.6% more than the previous year budget. The detailed breakdown of the proposed projects to be funded by the operating is on pp. 5-6 Attachment 1.

Other factors are discussed below:

Operations and Maintenance:

The last two pages of the proposed budget reflect the changes from FY 2019-20 to FY 2020-21. The following highlights specific budget items in each section with notable changes between the current budget and the proposed budget.

Personnel Salaries: -3.6% (-\$61,557) current full-time staff is 16 with one vacancy. The proposed budget reflects savings due to retirement of long-term employees and transitions to new staff members at a lower compensation step.

Employee Benefits: +6.9% (+\$52,997) primarily reflects the cost of allocated fixed-sum Unfunded Liability payments.

Lab Supplies: +16.6% (+\$5,400) reflects the steady rise in price of supplies and the addition of new mandatory sampling protocols.

Sodium Hypochlorite (Chlorine): + 3.7% (+\$2,000) the increased pricing reflects the chemicals supply market fluctuations.

Polymer: + 5.6% (+2,000) the increased pricing reflects the chemicals supply market fluctuations.

Electricity: +4.5.0% (+\$17,500) due to planning for higher cost of electricity during the prolonged storm events, costs associated new energy-intensive odor control system.

Outside laboratory: +4.9% (+\$1,300) increase due to projected higher cost for labor and materials.

Permit and Fees: +10.9% (+\$10,900) reflects increases in fees mandated by the Regional Water Resources Control Board for annual National Pollutant Discharge Elimination System (NPDES) permit fees, Air Quality Resources Control Board, Annual Landfill Disposal Permit Fees, Bay Area Air Quality Management District, and other regulatory agencies. It also includes membership

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71 fee for participation in California Association of Sanitary Agencies (CASA), and Bay Area Clean
72 Water Agencies (BACWA).

73 *Equipment: +2.3% (+\$2,250) increase reflects rising costs for replacing equipment.*
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75 **CAPITAL IMPROVEMENT PROJECTS:**

76 In addition to operation and maintenance components, the SASM budget also includes various
77 projects that are recommended to be funded by revenue.
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79 Staff recommends that the Board approve the following critical projects for FY 2020-21:
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81 **Funded by annual revenue* Total: \$695,000:**

82 Private Laterals Replacement Program (PLRP) \$50,000.

83 The program assists property owners with inspecting, repairing or replacing private sewer lateral.
84 It is an ongoing program that was initially developed according to the Agreement with the Regional
85 Water Quality Control Board (RWQCB) of 2008. Implementation of this program has shown to
86 reduce Inflow and Infiltration (I&I) from the private sewer laterals.

87 Digester Gas Piping Replacement \$155,000

88 Both digesters need rehabilitation within the next 5 years. Gas transfer system piping is a critical
89 component of digesters operation and needs more urgent repairs.

90 Boiler and Heat Exchanger Repairs \$90,000

91 Boilers/Heat Exchangers are critical components of safe and effective digester operation. Without
92 an adequate and consistent heating of the digesters, process may violate compliance requirements
93 and create unsafe conditions.

94 Financial Rate Study \$45,000

95 Financial Evaluation was conducted by SASM over 5 years ago. The new cycle of needed capital
96 improvements will require another evaluation of revenues and expenditures necessary to fund the
97 next CIP cycle.

98 Master Plan Phase 2 Update \$75,000

99 Planning of the next phase of the Master Plan implementation is recommended to begin in FY
100 2020-2021. It will include projects that were identified in the Master Plan, and will require further
101 development efforts.

102 Main Switchgear Replacement Design \$95,000

103 This high priority project was identified by the Master Plan, but was delayed due to logistical and
104 funding considerations. It is planned to begin in 2021.

105 Effluent Line Corrosion Protection System Repairs \$55,000

106 Effluent line corrosion protection system requires ongoing maintenance and periodic repairs.

107 Collection System Manhole Rehabilitation \$55,000

108 SASM has an ongoing program for manholes maintenance and rehabilitation as a component of
109 I&I reduction Plan.

110 Hypochlorite Storage Tank Replacement \$75,000

111 This project was identified by the Master Plan as high priority, but was delayed due to logistical
112 and funding considerations. It is planned to begin in 2021.

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114 Following is a summary of proposed Capital Improvement Projects for Fiscal Year 2020/21:

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116	1. Private Laterals*	\$50,000
117	2. Digester Gas Piping Replacement*	\$155,000
118	3. Boiler and Heat Exchanger Repairs*	\$90,000
119	4. Financial Rate Study*	\$45,000
120	5. Master Plan Phase 2 Update*	\$75,000
121	6. Main Switchgear Replacement Design*	\$95,000
122	7. Effluent Line Cathodic Protection Repairs*	\$55,000
123	8. Collection System Manhole Rehabilitation*	\$55,000
124	9. Hypochlorite Storage Tank Replacement*	\$75,000
125	Total:	\$695,000
126	*Funded by annual revenue	
127	**Funded by 2016 bond issue	0
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Note: After the design of the Main Switchgear Replacement will be completed, staff will provide the Board with recommendations for utilizing remaining funds from the bond issue.

Revenue Sources and Uses:

Total Revenue for FY 2020/21 is projected to be: **\$8,879,638**

The revenue sources are as follows:

137	1. Agency Assessments:	\$8,740,838
138	2. Interest Income:	\$20,000
139	3. Reclaimed Water Sales:	\$62,000
140	4. Mill Valley Pump Station O&M:	\$24,800
141	5. SASM Lab Revenue	\$32,000
142	Total:	\$8,879,638

Revenue uses for 2020/21:

145	Operations, Maintenance and Administration:	\$6,785,597
146	Capital Improvement Projects*:	\$695,000
147	Allocation to Reserves:	\$1,399,041
148	Total:	\$8,879,638

Fiscal Impact:

The proposed Operations and Maintenance budget reflects a strategy to accomplish the Work Plan adopted by the SASM Board in April of 2019, balancing operating expenses with member assessments and other revenue sources as well as contributing to the reserve balance.

Attachments:

1. Proposed Operations and Maintenance Budget for Fiscal Year 2020-21

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