

## Responses to Council Questions and Comments

8/7/2023

### Item #4: Resolution to Receive and File the City Treasurer's Quarterly Report Dated March 31, 2023

- Question: quarterly report - mentions a one-time impact fee revenue. What development was this?
  - Response: North River Apartments
- Question: The report is very positive. 208M in investments. We did earn good returns, but there is the statement that the majority of the 5M increase was due to one-time development fees. Could you expand this explanation, esp. since M group discussion is about benefit to city. Are these fees used to pay for city service costs and not part of the investment portfolio but we may be "profitable" to the tune of 5M?
  - Response: Total City Cash balances fluctuate from quarter to quarter based on cash inflows and outflows that occur in the normal course of business. There are many reasons for cash fluctuations and the main driver for the change in cash balances for the quarter ended 3/31/23 is due to development impact fees received during the period between 1/1/23-3/31/23. Development impact fees do not represent a profit, nor are they revenues available to cover City operational costs. The City's Impact Fee Nexus Study provides the nexus to assess fees and establishes how the fees can be spent, which are mainly allocated to a variety of capital infrastructure projects. For example, impact fee funds are currently appropriated to projects such as Caulfield Crosstown Connector, Bike and Pedestrian Safety Road Improvements, Fire Station, Community Baseball Field and several others. These funds are collected by the City and invested in the same manner as all other City cash is invested and will be held until a capital project is identified and fully funded.

### Item #6: Resolution to Approve PPAC Recommended Expenditure for Artwork Acquisition from the Mary Fuller McChesney Estate and Contract for Artwork Installation, Transportation, and Conservation from the City's Public Art Fund

- Question: Could we get further descriptions / photos of the 14 pieces of art to be acquired, as well as the proposed locations for their installation, as discussed in the staff report? The staff report (at p.3) makes reference to an "Attachment 1" that shows the artworks & locations, but that is not provided.
  - Response: The recommendation to Council is to approve the project spending for acquiring, conserving, and installing artworks from the Estate for public access and enjoyment as a part of the City's growing public art collection. The 14 artworks are all sculptures made from concrete and vermiculite (and two bronze), ranging from approximately 2 feet to 9 feet in height. The sculptures, which are mainly themed in mythological and animal subjects, include "Medusa", "Snake Goddess", "Rabbit", "Cat", "Ram", "Lion", "Owl Bench", "Coyote Goddess", "Woman with Owl", "Female and Male Totems", and "Shape Totem". Considered locations are Wiseman Park, the Petaluma Regional Library, Oak Hill Park, the Senior Center at Lucchesi Park, and the Corona

Road/Sonoma Mountain Parkway roundabout or Ely Road/Casa Grande Road roundabout, however these locations are still in a preliminary stage of review.

- Question: What was not clear in the report was the number of pieces being purchased for the 100K.
  - Response: 14 sculptures are to be purchased. The City is holding them with the Estate (i.e. no longer on the market) using a Memorandum of Understanding.
- Question: Will all go out into permanent public display, or will we need to store some long term and rotate exhibits?
  - Response: The Committee discussed a variety of different ways to display the works. Ideally the PPAC would like to have all the sculptures go directly to a permanent public display at several locations around the City. Staff is working across departments to solidify this plan and move forward with installation. Additionally, a few of these selected works will be gifted to the Petaluma Regional Library to add to their collection of McChesney sculptures.
- Question: If storage is needed, where will that be? Cost? Cost of installation may be more than the 100K.
  - Response: The goal is to get the artworks installed as soon as possible. The Estate has the sculptures stored in situ currently, which is a temporary solution. This item's funding will prioritize their installation into a permanent public space.
- Question: If units get damaged in any way, who will be responsible for repairs?
  - Response: The City does carry Fine Art Insurance for its public art collection. As discussed with Risk Management, these works will be added to that policy to cover them in the event of damage or needed repair.

**Item #9: Resolution Authorizing Award of Contract for Phase 3 of the Ellis Creek Water Recycling Facility Tertiary Treatment Expansion Project - Filter Additions and Miscellaneous Improvements to C. Overaa & Co.**

- Question: Why are responses to Council 7-17 an attachment in the agenda?
  - Response: This is a holdover item from the 7/17 meeting and was inadvertently preserved.
- Question: What is the peak flow currently and what is the projected date needed to increase capacity from 4.0 to 6.7 mgd?
  - Response: Peak recycled water flow varies by year, and peak demand typically occurs in July or August. For the current calendar year, through June 2023, the peak daily production of recycled is 3.2 mgd. Peak daily production of recycled water was 4.8 mgd in 2021, and 3.9 mgd in 2022. Increased production capacity is needed to permit any new summer demand. For example, the upcoming Adobe Road Pipeline Project (agricultural) Maria Drive Pipeline Project (urban) are planned for completion in 2024. Without the completion of the tertiary upgrades, the City will not be able to provide the additional annual demand of 300-400 acre-ft per year (84-112 million gallons) for Adobe Road project customers. Additionally, in order to meet the Maria Drive project customer demands, existing agricultural demand would need to be reallocated.

- Question: Who are the new consumers and when will they be connected and consuming recycled water?
  - Response: The City is planning to expand recycled water distribution to additional agricultural customers with the Adobe Road project and urban customers with the Maria Drive project. Adobe Road pipeline is planned to serve as vineyard irrigation to potential future customers who have shown long-term interest in receiving recycled water in this area. Maria Drive extensions are planned to serve an additional 8 parks, 2 schools, 2 business parks, and 6 LADS. New customers off Adobe Road and Maria Drive projects are planned for connection once projects are complete, as soon as the end of 2024.

The City is always accepting applications for recycled water and has several applications on file. The City connects new consumers based on several criteria, including 1) demand and recycled water availability, 2) location of demand and accessibility to existing infrastructure, 3) type of use, among others. The City also evaluates applicants' willingness and ability to store recycled water during the wet season. This is all being evaluated as part of the ongoing Integrated Water Master Plan (IWMP) effort, which will involve community and Council input.

- Question: How much of the sewer flows are being utilized by the recycled water system?
  - Response: Currently, the City is recycling 45% to 48% of plant influent. In 2020 the City produced 735 million gallons of recycled water (45% of the total annual influent flow); in 2021 the City produced 804 million gallons of recycled water (48% of the total annual influent flow); and in 2022 the City produced 689 million gallons of recycled water (45% of the total annual influent flow).
- Question: "Phase 3 will increase City Revenue." Please explain how this is to occur.
  - Response: Recycled water demand for irrigation varies by year, however, in general, increased production of recycled water allows for additional distribution and correspondingly increases consumption charges. Recycled water demand is anticipated to increase over time, as the City continues to explore reuse options beyond irrigation.

Revenues from the City's recycled water program for the 3 years 2020-2022 are as follows:

	2020	2021	2022
Recycled Water Revenue	\$491,815.74	\$729,873.52	\$829,873.58

With an increase in tertiary treatment capacity by an additional 712 AFY (an average of 0.63 MGD), the City's recycled water revenues may increase by approximately \$310,984 per year at the current recycled water rate. Currently, the recycled water rate for all customers (urban and agricultural) is up to half the potable rate except for a few historic agricultural customers who have high demand and lower rates locked into long-term

agreements. These agreements include storage requirements and easements for distribution infrastructure in exchange for reduced rates. Based on the revenues and consumptions shown above, the average price received is \$409.85, \$429.34, and \$436.78 per acre-ft. for the years 2020, 2021, and 2022, respectively. The high volume of water used by agricultural users with long-term agreements pulls these unit prices down to well below 50% of the potable rate.

As new users purchase recycled water and as these long-term agreements expire, this average unit price and recycled water revenues will continue to rise. Furthermore, the new rate study proposes to allow for recycled water to be charged at a rate of up to 100% of the potable water rate.

Regarding the long-term vision and cost-effectiveness of recycled water, it is important to point out that the City is in the process of preparing an Integrated Water Master Plan (IWMP). This study is partially funded by grants and provides us with a unique opportunity to take a holistic view of all water supply development opportunities, including recycled water program expansion. Through this effort, projects will be scored in a way that will represent a complete project cost to our decision-makers and community for their feedback and input on future planning.

As part of this effort, staff plans to perform a financial analysis of the recycled water program to determine the cost of recycled water production and program expansion, as well as review recycled water rates. As part of this recycled water rate analysis, staff plans to consider and recommend structured rate options for (1) urban recycled water customers, (2) agricultural recycled water customers, and (3) seasonal agricultural users that will incentivize recycled water storage during winter months.

The total project budget for the three phases of the Tertiary Project is \$19.5 M. When factoring in the \$8.3 M in grant funding for this project (42.6% grant-funded), it is estimated that cost recovery for the project will occur between 12 and 15 years, assuming that the additional 712 AFY is sold at the current recycled water rate (which increases with inflation and potable rate increases). By the time the tertiary project is online, and the Adobe and Maria Drive projects have been completed, new recycled water rates may be adopted with a revised structure for different users, thus providing additional revenue and potentially reducing the payback period further.

- Question: I understand that this project involves both pump capacity and filtration. Please say more about the line in the report “the added filtration system redundancy which is less resilient to disruption of service.”
  - Response: If the filter expansion is completed as the third phase of the Tertiary project, the additions will include two cloth media filters, in addition to the 5 existing sand filter units. In this case, if either media filter or sand filter system is taken offline for maintenance, the other could operate and continue to provide a reduced level of recycled water service with little disruption. Additionally, the use of differing filter

technologies allows flexibility if there were a constraint in the supply chain for either sand filter media or cloth filter media components.

- Comment: Staff report needs to analyze or quantify the cost effectiveness.
  - Response: The following information has been added to the staff report in response to this comment.

Recycled water demand for irrigation varies by year, however, in general, increased production of recycled water allows for additional distribution and correspondingly increases consumption charges. Recycled water demand is anticipated to increase over time, as the City continues to explore reuse options beyond irrigation.

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With an increase in tertiary treatment capacity by an additional 712 AFY, the City's recycled water revenues may increase by approximately \$310,984 per year at the current recycled water rate. Currently, the recycled water rate for all customers (urban and agricultural) is half the potable rate except for a few historic agricultural customers who have high demand and lower rates locked into long-term agreements. These agreements include storage requirements and easements for distribution infrastructure in exchange for reduced rates. Based on the revenues and consumptions shown above, the average price received is \$409.85, \$429.34, and \$436.78 for the years 2020, 2021, and 2022, respectively. The high volume of water used by agricultural users with long-term agreements pulls these unit prices down to well below 50% of the potable rate. As new users purchase recycled water and as these long-term agreements expire, this average unit price and recycled water revenues will continue to rise. However, it is important to consider the historical context of these existing long-term agreements.

Until the summer of 2013, the City paid agricultural users to take disinfected secondary effluent produced at ECWRF during the irrigation season. The City implemented agricultural irrigation to comply with an order from the San Francisco Bay RWQCB that restricts the City's treated wastewater discharges to the Petaluma River between May 1 and October 30. Agricultural users began paying the City a commodity charge in the

summer of 2013 at which point the City replaced deliveries of secondary effluent to agricultural users with tertiary treated effluent. This project represents the completion of a long-standing vision to maximize tertiary treatment as outlined in the North Bay Water Reuse Program Phase 2 Feasibility Study (available here:

<https://www.nbwra.org/wp/wp-content/uploads/NBWRP-P2-FS-Report-Final.pdf>; see Section 3.1.2, page 3-4).

Regarding the long-term vision and cost-effectiveness of recycled water, it is important to point out that the City is in the process of preparing an Integrated Water Master Plan (IWMP). This study is partially funded by grants and provides us with a unique opportunity to take a holistic view of all water supply development opportunities, including recycled water program expansion. Through this effort, projects will be scored in a way that will represent a complete project cost to our decision-makers and community for their feedback and input on future planning.

As part of this effort, staff plans to perform a financial analysis of the recycled water program to determine the cost of recycled water production and program expansion, as well as review recycled water rates. As part of this recycled water rate analysis, staff plans to consider and recommend structured rate options for (1) urban recycled water customers, (2) agricultural recycled water customers, and (3) seasonal agricultural users that will incentivize recycled water storage during winter months. Additionally, the recent drought increased demand for recycled water, further emphasizing the need for a recycled water program and rate analysis.

While the effluent from the Ellis Creek Water Recycling Facility was once considered to be something that needed to be “disposed of” in order to meet regulatory requirements (to not discharge between May 1 and October 30), high-quality tertiary treated recycled water is now considered to be a valuable commodity that is in demand and can be sold at a market rate determined by the City. Completion of the tertiary expansion project will ensure that the City is well-positioned in being able to produce, distribute, store, and sell recycled water for beneficial reuse. This is especially important as we continue efforts to improve the resiliency of our water supply during future droughts. The IWMP process is well underway and will soon involve community stakeholders and input from Council in helping to determine future recycled water demands, priorities for uses and distribution, and optimal recycled water rates.

The total project budget for the three phases of the Tertiary Project is \$19.5 M. When factoring in the \$8.3 M in grant funding for this project (42.6% grant-funded), it is estimated that cost recovery for the project will occur between 12 and 15 years, assuming that the additional 712 AFY is sold at the current recycled water rate (which increases with inflation and potable rate increases). By the time the tertiary project is online, and the Adobe and Maria Drive projects have been completed, new recycled water rates may be adopted with a revised structure for different users, thus providing additional revenue and potentially reducing the payback period further.

The total approved budget for the Tertiary Filtration Expansion Project is \$18,792,000, as shown in the FY 2023/2024 Proposed Operating and Capital Improvement Project Budget. The Filtration Expansion and Miscellaneous Improvements Project is Phase 3 of the overall project, and the lowest responsible project bid was \$9,811,000.

Phase 1 was completed for \$265,500, and Phase 2, which is currently in progress was awarded for \$3,061,000. The Phase 3 award for \$9,811,000 results in a construction contract cost subtotal of \$13,137,500, for a net cost increase of \$791,500 compared to the FY 23/24 budget. However, the FY 23/24 budget did not include all the grant funding due to the timing of the funding agreements.

In 2019, the City of Petaluma's Tertiary Project was awarded \$3.6 M in funding with a 50% City match from DWR Prop 1 funds through NBWRA. The DWR grant funding requires project completion (Phase 3) by December 2024.

In 2021, the City received a second grant through NBWRA for the Tertiary Project from Reclamation Title XVI funding. The Reclamation funding is \$4.7 M with a 25% City match based on a project estimate of \$18.8 M. The application for this grant funding was authorized by City Council on March 21, 2022 [AGENDA LINK](#) and the formalized agreement for this additional grant funding is in progress.

All grant funding for the tertiary treatment upgrades project was awarded as one project, which includes Phases 1, 2, and 3.

- Question: What is the current demand for recycled water?
  - Response: The following information has been added to the staff report in response to this question.

Between 2018-2022, the average daily influent flow between May 1<sup>st</sup> and October 21<sup>st</sup> was 3.8-4.6 mgd. During this time, an average of 2.9 mgd of recycled water was produced, which over the five-year period equates to 69.4% of the facility's influent being recycled.

Today, the City's recycled water program applies recycled water to approximately 2,006 acres, most of which are agriculture, vineyards, and golf courses. About 10% of the City's recycled water is served within our potable water service area and considered potable offset (approximately 3% offset to potable demand), while about 68% of our recycled water is served to customers outside our water service area.

The City's recycled water program currently has a total of 23 customers, not including recycled water haulers and ECWRF which has onsite recycled water use. Below is a table showing the City's existing recycled water program, as of 2022:

**Table 1: Existing Recycled Water Program (2022)**

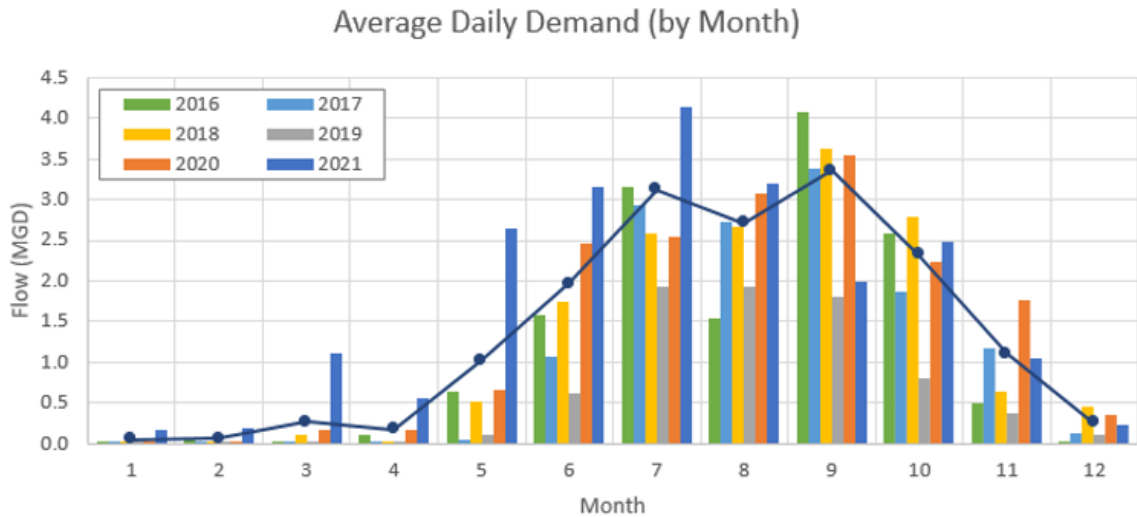
Reuse Application	Category	No. of Properties	Area Applied (Acres)	Amount Distributed (MG)	% of Total Reuse
Landscape Irrigation (Urban)	Parks/LADS	15	47	29.5	4.4%
	Airport/Commercial (Kaiser)	3	22	4.6	0.7%
	Schools	7	108	30.9	4.6%
Golf Courses		2	264	154.0	22.9%
Agriculture	Pastures, Vineyards, Crops	13	1,565	302.4	45.1%
Other	Construction/Hauled	(17)	-	3.5	0.5%
	ECWRF Onsite Uses	(1)	-	119.0	17.7%
Total		23 (41 Total)	2,006	643.9	

The Tertiary Project includes facility upgrades at ECWRF to increase tertiary filtration and disinfection capacity by 2.12 mgd., producing an additional yield of 712 AFY. The existing facility can treat 4.68 mgd. to Title 22 tertiary disinfected standards. These improvements would allow the City to produce additional tertiary treated recycled water to meet peak summer demands, future demands for the planned Adobe Road and Maria Drive Recycled Water Pipeline Extension projects, and increasing recycled water demands.

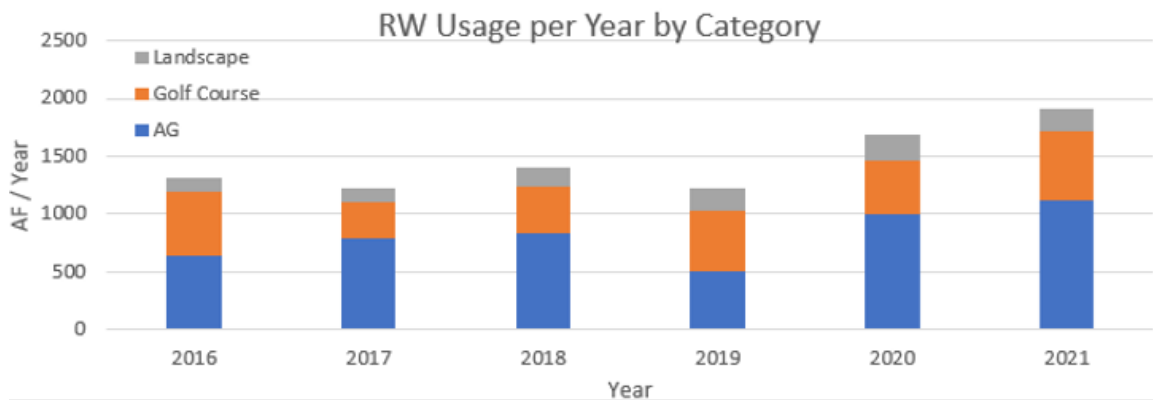
Recycled water demand is seasonal since all current demand is for irrigation. Demand varies by year, as shown in Figures 1 and 2 below, and peak demand is typically in July or August. In recent drought years, recycled water demand exceeded supply through the irrigation season, and the City's recycled water program was not permitting new recycled water customers.

**Figure 1: Average Daily Recycled Water Demand by Month (2016-2021)**





**Figure 2: Recycled Water Use/Year by User Category**



In 2021, the peak daily production of recycled water was 4.8 mgd., and 3.9 mgd. in 2022. For the current calendar year, through June 2023, the peak daily recycled water production has been 3.2 mgd. The max daily production of recycled water is about 4.7 mgd., with the average daily production at approximately 2.7 mgd. Increased tertiary production capacity is needed to authorize additional summertime recycled water customer demand.

The Adobe Road project is anticipated to serve additional recycled water customers for vineyard irrigation and increase recycled water demand by 300-400 AFY. Without the Tertiary Project and the increase in tertiary treatment system capacity, the City will not be able to serve the anticipated demand for the Adobe Road project.

At the completion of the third project phase, the peak capacity for tertiary treatment would be increased from 4.7 to 6.7 mgd, producing an additional yield of 712 AFY

- Question: What revenues are generated from selling it?

- Response: The following information has been added to the staff report in response to this question.

Recycled water demand for irrigation varies by year, however, in general, increased production of recycled water allows for additional distribution and correspondingly increases consumption charges. Recycled water demand is anticipated to increase over time, as the City continues to explore reuse options beyond irrigation.

Revenues from the City's recycled water program for the 3 years 2020-2022 are as follows:

	2020	2021	2022
Recycled Water Revenue	\$491,815.74	\$729,873.52	\$829,873.58

Currently, the City can recycle 45% to 48% of plant influent. In 2020 the City produced 735 million gallons of recycled water (45% of the total annual influent flow); in 2021 the City produced 804 million gallons of recycled water (48% of the total annual influent flow); and in 2022 the City produced 689 million gallons of recycled water (45% of the total annual influent flow).

With an increase in tertiary treatment capacity by an additional 712 AFY, the City's recycled water revenues may increase by approximately \$310,984 per year at the current recycled water rate. Currently, the recycled water rate for all customers (urban and agricultural) is half the potable rate except for a few historic agricultural customers who have high demand and lower rates locked into long-term agreements. These agreements include storage requirements and easements for distribution infrastructure in exchange for reduced rates. Based on the revenues and consumptions shown above, the average price received is \$409.85, \$429.34, and \$436.78 for the years 2020, 2021, and 2022, respectively. The high volume of water used by agricultural users with long-term agreements pulls these unit prices down to well below 50% of the potable rate. As new users purchase recycled water and as these long-term agreements expire, this average unit price and recycled water revenues will continue to rise.

- Question: *What are the expectations for demand going forward, and when will that materialize?*
  - Response: The following information has been added to the staff report in response to this question.

The project is intended to increase and maximize tertiary production capacity as part of our overall recycled water program vision and water supply strategy. Uses and allocations for recycled water have yet to be determined; however, there is interest and demand for both urban and agricultural purposes.

The City is planning to expand recycled water distribution to additional agricultural customers with the Adobe Road project and urban customers with the Maria Drive project. Adobe Road pipeline is planned to serve as vineyard irrigation to potential future customers who have shown long-term interest in receiving recycled water in this area. Maria Drive extensions are planned to serve an additional 8 parks, 2 schools, 2 business parks, and 6 LADS. New customers off Adobe Road and Maria Drive projects are planned for connection once projects are complete, as soon as by the end of 2024. In addition to the current planned expansion projects listed above, the City is planning its next phase of recycled water program expansion through the Integrated Water Master Planning (IWMP) process, which will help determine future recycled water demand. The SWRCB will adopt regulations for Direct Potable Reuse by the end of this year, which will change the way we can use recycled water, providing opportunities for program expansion beyond use for irrigation only.

Current recycled water program study areas include:

- Additional non-potable reuse: urban and agricultural irrigation, dual-plumbing, industrial process water
- Recycled water storage for additional reuse
- Potable reuse options (Indirect Potable Reuse/Future Direct Potable Reuse)

- *Question:* What are the expected costs and revenues?

- *Response:* The following information has been added to the staff report in response to this question.

With an increase in tertiary treatment capacity by an additional 712 AFY, the City's recycled water revenues may increase by approximately \$310,984 per year at the current recycled water rate. Currently, the recycled water rate for all customers (urban and agricultural) is half the potable rate except for a few historic agricultural customers who have high demand and lower rates locked into long-term agreements.

Regarding the long-term vision and cost-effectiveness of recycled water, it is important to point out that the City is in the process of preparing an Integrated Water Master Plan (IWMP). This study is partially funded by grants and provides us with a unique opportunity to take a holistic view of all water supply development opportunities, including recycled water program expansion. Through this effort, projects will be scored in a way that will represent a complete project cost to our decision-makers and community for their feedback and input on future planning.

As part of this effort, staff plans to perform a financial analysis of the recycled water program to determine the cost of recycled water production and program expansion, as well as review recycled water rates. As part of this recycled water rate analysis, staff plans to consider and recommend structured rate options for (1) urban recycled water

customers, (2) agricultural recycled water customers, and (3) seasonal agricultural users that will incentivize recycled water storage during winter months.

The IWMP process is well underway and will soon involve community stakeholders and input from Council in helping to determine future recycled water demands, priorities for uses and distribution, and optimal recycled water rates.

The total project budget for the three phases of the Tertiary Project is \$19.5 M. When factoring in the \$8.3 M in grant funding for this project (42.6% grant-funded), it is estimated that cost recovery for the project will occur between 12 and 15 years, assuming that the additional 712 AFY is sold at the current recycled water rate (which increases with inflation and potable rate increases). By the time the tertiary project is online, and the Adobe and Maria Drive projects have been completed, new recycled water rates may be adopted with a revised structure for different users, thus providing additional revenue and potentially reducing the payback period further.

The total approved budget for the Tertiary Filtration Expansion Project is \$18,792,000, as shown in the FY 2023/2024 Proposed Operating and Capital Improvement Project Budget. The Filtration Expansion and Miscellaneous Improvements Project is Phase 3 of the overall project, and the lowest responsible project bid was \$9,811,000.

Phase 1 was completed for \$265,500, and Phase 2, which is currently in progress was awarded for \$3,061,000. The Phase 3 award for \$9,811,000 results in a construction contract cost subtotal of \$13,137,500, for a net cost increase of \$791,500 compared to the FY 23/24 budget. However, the FY 23/24 budget did not include all the grant funding due to the timing of the funding agreements.

Parking improvements at ECWRF will be required due to the loss of staff parking from the completion of the Tertiary Project. Parking improvement costs are not included in the current construction contract and a future increase to the overall project budget will likely be needed to offset the loss of parking.

Project funding is shown below as Wastewater Capital Funds for FY 23/24. The grant funding sources are shown in the total Project Budget because these funds would be received following the completion of the project during FY 24/25. The following is a breakdown of the project budget categories for Phases 1, 2, and 3:

<b>Itemized Budget Breakdown C66401416</b>	<b>FY 23/24 Budget</b>	<b>Previously Approved Project Budget</b>	<b>Amended Total Project Budget</b>
<b>Uses</b>			
<b>Design/Planning/Environmental</b>	<b>\$ 180,000</b>	<b>\$ 1,751,000</b>	<b>\$ 1,751,000</b>
<b>Administration/Legal Services</b>	<b>\$ 8,000</b>	<b>\$ 16,000</b>	<b>\$ 16,000</b>

Construction Contracts	\$5,793,000	\$12,346,000	\$13,137,500
Construction Management	\$ 900,000	\$ 1,501,000	\$ 1,501,000
Contingency	\$1,448,000	\$ 2,817,000	\$ 2,817,000
CIP Overheads	\$ 165,000	\$ 361,000	\$ 361,000
<b>TOTAL</b>	<b>\$8,494,000</b>	<b>\$18,792,000</b>	<b>\$19,583,500</b>

Funding Sources	FY 23/24 Budget	Total Project Budget
Wastewater Capital Funds	\$8,494,000	\$11,283,500
2019 DWR Prop 1 Grant (NBWRA)	-	\$ 3,600,000
2021 Reclamation Title XVI Grant (NBWRA)		\$ 4,700,000
<b>TOTAL</b>	<b>\$8,494,000</b>	<b>\$19,583,500</b>

- Question: How does the grant funding mentioned factor in?
  - Response: The following information has been added to the staff report in response to this question.

In 2019, the City of Petaluma's Tertiary Project was awarded \$3.6 M in funding with a 50% City match from DWR Prop 1 funds through NBWRA. The DWR grant funding requires project completion (Phase 3) by December 2024.

In 2021, the City received a second grant through NBWRA for the Tertiary Project from Reclamation Title XVI funding. The Reclamation funding is \$4.7 M with a 25% City match based on a project estimate of \$18.8 M. The application for this grant funding was authorized by City Council on March 21, 2022 and the formalized agreement for this additional grant funding is in progress.

The total project budget for the three phases of the Tertiary Project is \$19.5 M. When factoring in the \$8.3 M in grant funding for this project, this project is 42.6% grant funded.

Below is a complete look at recycled water program grant funding, both past and current.

**Table 2: Recycled Water Program Grant Funding**

Project	Project Cost	Grant Funding Source	Grant Amount
Maria Drive Recycled Water Pipeline Extensions (Urban)	\$3.218 M	2021 Reclamation Title XVI (NBWRA)	\$804,427
		2023 DWR SMGA Implementation (Petaluma Valley GSA)	\$2.6 M

Adobe Road Recycled Water Pipeline Extension (Agricultural)	\$5.608 M	2021 Reclamation Title XVI (NBWRA)	\$1.4 M
		2021 DWR Urban and Multibenefit Drought Relief Program	\$3.2 M
<b>Tertiary Treatment Expansion Project</b>	\$18.865 M (Grant Application Project Cost)	<b>2021 Reclamation Title XVI (NBWRA)</b>	<b>\$4.716 M</b>
		<b>2019 IRWM Prop 1 (NBWRA)</b>	<b>\$3.6 M</b>
Sonoma Mountain Alignment (Urban) - Completed	\$2.64 M	2017 State Water Resources Control Board (SWRCB) Prop 1	\$870,030
Recycled Water Facilities Planning (Recycled water portion of IWMP)	\$452,623	SWRCB Water Recycling Funding Program (2022)	\$226,311
<b>Total</b>			<b>\$16.42 M</b>

- Question: And bottom line, does this \$9.8 million expenditure make sense for ratepayers? This requires a financial analysis.
  - Response: The following information has been added to the staff report in response to this question.

Regarding the long-term vision and cost-effectiveness of recycled water, it is important to point out that the City is in the process of preparing an Integrated Water Master Plan (IWMP). This study is partially funded by grants and provides us with a unique opportunity to take a holistic view of all water supply development opportunities, including recycled water program expansion. Through this effort, projects will be scored in a way that will represent a complete project cost to our decision-makers and community for their feedback and input on future planning.

As part of this effort, staff plans to perform a financial analysis of the recycled water program to determine the cost of recycled water production and program expansion, as well as review recycled water rates. As part of this recycled water rate analysis, staff plans to consider and recommend structured rate options for (1) urban recycled water customers, (2) agricultural recycled water customers, and (3) seasonal agricultural users that will incentivize recycled water storage during winter months.

While the effluent from the Ellis Creek Water Recycling Facility was once considered to be something that needed to be “disposed of” in order to meet regulatory requirements (to not discharge between May 1 and October 21), high-quality tertiary treated recycled water is now considered to be a valuable commodity that is in demand and can be sold at a market rate determined by the City. Completion of the tertiary expansion project will ensure that the City is well-positioned in being able to produce, distribute, store, and sell recycled water for beneficial reuse. This is especially important as we continue efforts to improve the resiliency of our water supply during future droughts. The IWMP

process is well underway and will soon involve community stakeholders and input from Council in helping to determine future recycled water demands, priorities for uses and distribution, and optimal recycled water rates.

**Item #14: Resolution Authorizing the City Manager to Submit Comments of the Petaluma City Council to the Presiding Judge of the Sonoma County Superior Court Concerning the Findings and Recommendations of the Sonoma County Civil Grand Jury 2023 Report Entitled "Outsourcing Petaluma Planning Department" (In Accordance With California Penal Code Sections 933 and 933.05)**

- Question: Could we please get a description of pension benefits offered to employees of M Group?
  - Response: M-Group offers its employees a 401k retirement plan. After 1 year of employment, there is a minimum 3% company contribution into the plan. Optionally, depending on company performance, the company may decide to increase the contribution above 3%, but that is not guaranteed.
- Question: My one question is about how the cost analysis addresses facilities in the OH figures. An internal staffing model includes space for staff that should show up in one of the OH rates (which one?). But, because we provide M Group facility space (free of rent?), the cost analysis should exclude the facility-related costs associated with the staff persons (correct?). Does the cost analysis for an internal staffing model eliminate the facilities-related expenses from the OH rates?
  - Response: The overhead component included in the cost analysis does not include facilities cost. The overhead only includes direct services and supplies, administrative staffing overhead support (HR, Benefit Management- Retirement/Health/Workers Compensation/etc. and Payroll, Finance, etc.) and Internal Fund Support overhead such as Information Technology, Risk Management and General Services.
- Question: I think that the complaints of some citizens with respect to our cost-benefit analyses relate to lack of mention of intangible costs, like, for example, customer satisfaction. Do you think that this can be included in any way by either looking back at complaints over time, or including certain questions in the 2026 survey planned to address R6 in SCCGJ Report?
  - Response: In addition to the cost analysis, additional benefits of the hybrid workforce model is considered such as work performance (e.g. advancing City Council policies/goals, permit processing times, community input, etc...). The City response to the Grand Jury was to perform a survey by December 31, 2024.
- Question: Staff reports about \$2.6 million paid M-Group in FY22-23. Is it possible to report amounts paid for other years, and thus see trend of cost over time?
  - Response: Monthly costs change significantly depending on demand and most recently, costs have grown in total due to the increase in activity and largely in response to community and Council priorities. Historical costs – FY 23 \$2.6M, FY 22 \$2.3M, FY 21 \$2.05M, FY 20 \$1.9M. As the demand for services increase year over year, as it has through M Group, any in house service model would need to be increased accordingly to meet demand.
- Question: Slight misprint on pg 8 of Summary of Responses: "end of 2023", should read "end of 2022", I think.

- Response: Correct, it should read “end of 2022.”

**Item #15: Public Hearing on Water and Wastewater Services Charges and Resolution Adopting a New Rate Schedule for Water Service Repealing and Replacing Resolution 2017-076 N.C.S. and the Resolution Adopting a New Rate Schedule for Wastewater Service Repealing and Replacing Resolution 2017-075 N.C.S.**

- Question: water rates - fund balances in Water and Waste Water rise every year over year. What is the plan to reduce the fund balances - or will the proposed CIP component of the increase rate add to the fund balances?
  - Response: The City currently strives to pay for its CIP projects on a “pay-as-you-go” program. As such, there are peaks and valleys in project expenditures and it is important for the city to plan for providing adequate fund reserves when large projects are constructed. Examples include the PIPs station and force main reconstruction project, Payran & Madison watermain replacements (Howard, D St., and others tied to various street improvement projects), Hardin & Manor tank rehabilitations, Oakhill tank reconstruction, and other large projects. The proposed rate increases include cash flow projections and necessary fund reserves to pay for these projects. Borrowing may be necessary depending on a variety of factors, but the current strategy minimizes the amount or need for issuing bonds to finance projects.
- Comment: During Monday evening’s public informational meeting about the rate study, staff learned that many residents of the mobile home communities did not receive the Proposition 218 notices mailed out on June 23<sup>rd</sup> (Attachment 4 on tonight’s agenda).
  - Response: These notices are required for all property owners of record at least 45 days before the Public Hearing. The City went above and beyond in also mailing notices to all customers of record – in addition to property owners of record (totaling nearly 30,000 addresses).

All 7 mobile home communities have private water and sewer systems, and the City has just one meter for each community. As a result, the City’s “customer” is technically the park/property owner, and proper notification was provided.

However, in the spirit of going above and beyond in notifying affected community members, the City immediately reached out to the managers and owners of all 7 mobile home communities to request assistance with circulating notices. Staff received confirmation from 4 of the parks that they had shared/circulated the notices by email or postings. Hearing nothing from Petaluma Estates, Royal Oaks, and Capri Villa, staff took matters into their own hands (literally) by circulating paper copies to 436 customers on Friday.