

FISCAL YEAR 2017 Annual Report



FISCAL YEAR 2017 ANNUAL REPORT

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I am pleased to present the City of Sacramento Department of Utilities Fiscal Year 2017 Annual Report. This report contains our implementation of strategic planning initiatives, an overview of our current system, and our priorities for future efforts.

The Department has a deep commitment to our community and a sense of pride in this stewardship responsibility. To continue necessary improvements to our aging system, the City Council approved a four-year rate adjustment from fiscal year 2017 to 2020 for both the water and wastewater systems. The water rate adjustments were proposed with most of the funding planned for the City Council acceleration of a state mandated water meter installation program to be completed in 2020, instead of 2025 due to the historic drought. The wastewater rate adjustments were proposed to fund various projects, including the improvement of the combined wastewater system, and construction of an underground combined wastewater storage facility in McKinley Park. In addition to implementing programs and projects, the Utility Rate Assistance Program was expanded to include nonprofit organizations providing housing.

Maintaining the trust of our stakeholders is a guiding principal. Our accountability to them drives us to continually improve the organization and level of service provided. The Department joins the City efforts in promoting local economic growth and supporting local businesses. We are excited to deliver services and collaborate in developing new areas like the Railyards and new venues, like the downtown arena.

Even though the state water conservation mandate was lifted during FY17, the Department continued its support of water saving efforts. Public education, rebates, and other coordinated City efforts have resulted in per capita water use well below 2020 targeted levels. We remain resolute in managing our water resources efficiently. We continue to evaluate our infrastructure and practices to ensure they are sustainably operated and maintained.

Finally, I want to express my appreciation to the DOU staff. Every day I am impressed and proud to see their diligence, competence, and work ethic. Our team is our most valuable resource and we want to ensure all current and future customers that we remain Your Utilities, Your Partner.



William Busath
Department of Utilities Director



Our Senior Management Team

William Busath
Utility Director

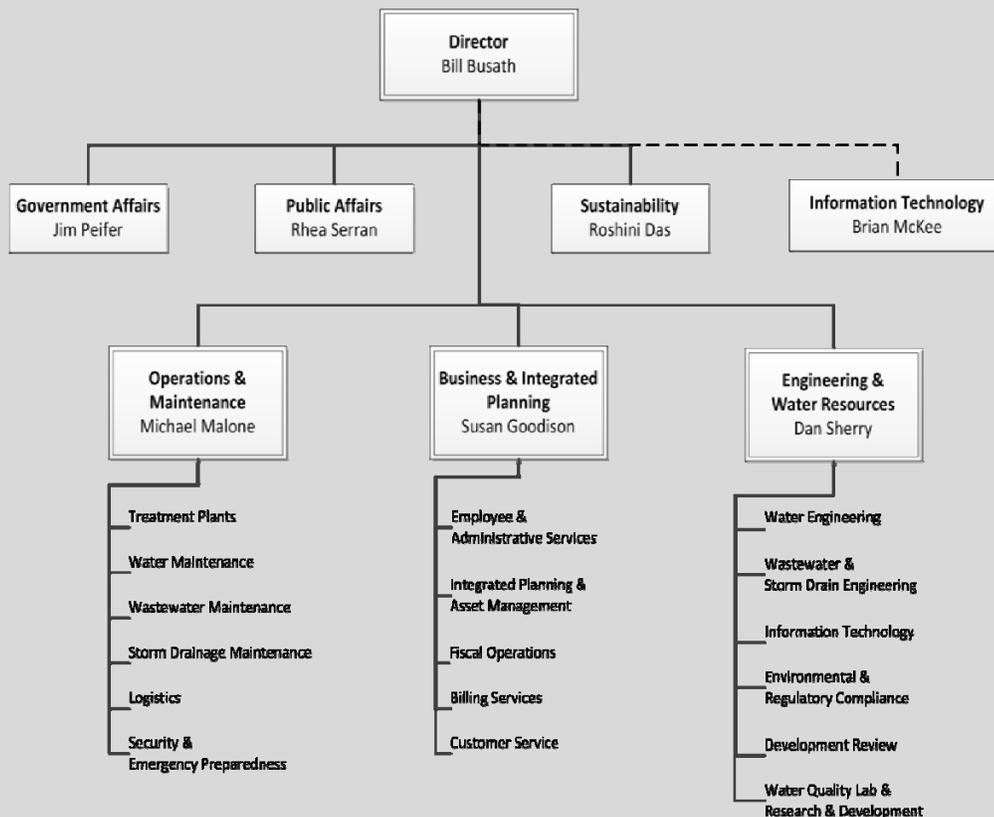
Susan Goodison
Division Manager -
Business & Integrated
Planning

Dan Sherry
Division Manager -
Engineering & Water
Resources

Michael Malone
Division Manager -
Operations &
Maintenance



Originally named Sacramento City Water Works, the City of Sacramento Department of Utilities has been providing high quality service to the community since 1873. Currently, the Department manages three enterprise funds, delivering water, wastewater, and storm water services to over 490,000 customers. The Office of Director oversees three operations divisions: Operations & Maintenance, Business & Integrated Planning, and Engineering and Water Resources. There are three additional sections that reflect a commitment to local and regional policy involvement, education and stakeholder outreach, and planning for current and future generations by protecting, preserving and enhancing water resources, the environment, and the community.



We were busy in Fiscal Year 2017!



73% of City residents and businesses have water meters

Over 6,900 wastewater service requests handled

47 Drain inlets installed in coordination with Public Works ADA Initiative

Exceeded state water conservation targets for 2020 by 30%

472 Underground infrastructure repair projects completed

41 Electrical Studies completed

11,678 Sewer pipe segments inspected and/or cleaned





Every day the employees of the Department of Utilities provide and maintain water, wastewater, storm drainage, and flood control services and facilities for the benefit of the community.

WATER SYSTEM

In FY17, the City produced 86,081 acre feet of water for retail purposes. 72% of this supply was provided by the City's two neighboring rivers, and the remaining 28% was supplied from groundwater wells. The Water Enterprise Fund supports the capital and operating costs of providing potable water throughout the City, including treatment and distribution. In accordance with the City's Charter, the Department has sole responsibility for the City's municipal water supply.

WASTEWATER SYSTEM

The Wastewater Enterprise Fund supports the capital and operating costs of providing wastewater services throughout the City, including maintenance, repair, and replacement of facilities for collecting, conveying, and pumping separated and combined wastewater to treatment facilities as well as primary treatment of combined wastewater. Sacramento is home to one of four combined sewer systems in the west where sewage and drainage are collected in a single system of pipes. Wastewater services within the City boundary are shared by the City and the Sacramento Area Sewer District (SASD). The City's share covers about 60,800 acres. Both separated and combined system wastewater is treated by the Sacramento Regional County Sanitation District (SRCSD).

STORMWATER SYSTEM

The Storm Drainage Enterprise Fund supports the capital and operating costs of providing storm drainage throughout the City, including maintenance, repair, and rehabilitation of the storm drainage system. The storm drainage system is made up of the collection system and drainage pump stations, water quality and flood control basins, ditches, channels, and levees.

Additionally, the Department administers the City of Sacramento Stormwater Quality Improvement Program comprised of various elements designed to reduce stormwater pollution and eliminate prohibited non-stormwater discharges. In concert with other City departments and regional partners, the Department also administers the National Flood Insurance Program.

Current Facilities and Infrastructure

Aging Infrastructure and increasing population means that service reliability is dependent on identifying, assessing and maintaining thousands of assets. We continually evaluate our asset management processes to identify room for improvement and innovation. Through mapping, field surveys and modeling we can ensure that enterprise funds are spent on infrastructure to best benefit the community.



FACILITY HIGHLIGHT—SRWTP

The Sacramento River Water Treatment Plant (SRWTP) began operating in 1924 with an initial capacity of 32 Million Gallons per Day (mgd) and cost \$2.7 million to build. By 1990, SRWTP capacity was expanded to 110 mgd. SRWTP draws water from the Sacramento River using riparian water rights attained in 1922. A new intake in 2003 boosted capacity to 160 mgd. To increase reliability, a \$160 million rehabilitation project was designed in 2013. In late 2016, the project was completed under budget. To continue to protect the City's investment and the health and safety of its residents, security at the SRWTP intake facility was also reinforced.

Water	Drinking Water Treatment Facilities	2
	Active Groundwater Wells	26
	Storage Reservoirs	11
	Pipe	1,603 miles
	Wholesale Water Connections	7

Wastewater	Primary Treatment Plants	2
	Pump Stations	45
	Storage Facilities	3
	Pipe	830 miles
	Manholes	17,707

Stormwater	Water Quality/Flood Control Basins	62
	Pump Stations	105
	Creeks/ditches/channels	429 miles
	Pipe	834 miles
	Manholes	20,283

Customer service is a priority for every member of the Department. To facilitate timely responses to service requests and billing questions, the Department operates a billing call center, a public counter, and is a liaison to the City 311 call center for Utility service requests and customer payments. With over 490,000 customers and 135,000 accounts, the billing system is continuously monitored and audited to ensure billing accuracy.

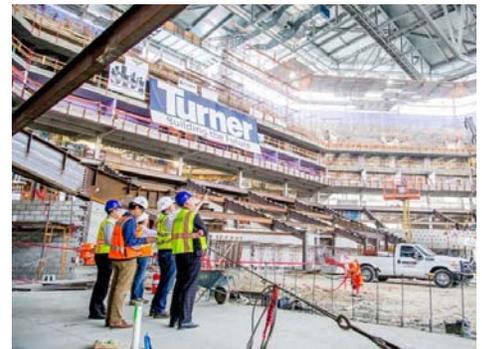


In FY17, the DOU responded to over 150,000 customer service requests. Planning began for a major upgrade to the Customer Information System. DOU also began conducting monthly customer transactional surveys which, combined with a customer relationship survey, will help the Department to continue to provide excellent customer service across the entire Department.

BUSINESS SUPPORT

The DOU works closely with private and public entities to support economic development in Sacramento by installing, updating, and maintaining infrastructure. In FY17, DOU projects included designing the 3rd Street Relief Sewer project to benefit the Railyards and River District developments, as well as electrical work at a sewer lift station for the Delta Shores development. In addition, the Department contributed to private projects like the Golden 1 Arena, the first LEED Platinum sports arena, which is estimated to save over 2 million gallons of water a year. Utilities staff provide daily and consistent assistance for current and future businesses of all types and sizes. Here are a few ways we help make Sacramento a great place to work and grow:

- ◇ *Fat Free Drains* - DOU staff visit restaurants to educate owners on how to save money and avoid clogged pipes by safely disposing of Fats, Oils, and Grease (FOG).
- ◇ *Water Wise Business Calls* - Free water conservation specialist visit and free conservation education materials to educate customers, like table toppers and towel hangers.
- ◇ *Clean Water Business Partner* - Participating businesses are provided with simple tools and information to encourage their employees and customers to be more conscientious about keeping storm drains free of pollutants. In addition, participating businesses are included in the program's advertising campaign.
- ◇ *Be Flood Ready!* - Tips on buying flood insurance and flood preparation for businesses and residents
- ◇ *Sewer Credit Program* - Reductions on sewer connection fees for eligible commercial, new construction and residential homeowner projects. This program can save businesses up to 88 percent on connection costs.
- ◇ *Your Utilities. Your Community.* - Provided info on the July 2017 rate adjustment and the complexities and challenges facing the Utilities Department while asking for feedback from the community.



SUSTAINABILITY & DROUGHT

Department staff works in concert with other City departments, as well as numerous regional, state, and federal agencies to develop and maintain urban utility infrastructure and formulate long-range financial plans to ensure the sustainability of the services provided. Under the emergency conservation regulations present during the recent drought the City was required to reduce its retail demands 28% against a 2013 calendar year baseline. While prior emergency requirements are no longer in effect, FY17 had a 27% water conservation success when compared to 2013 demands. Now, DOU Staff are focused on meeting the 2009 Water Conservation Act (SBX7-7). These regulations require the City to demonstrate a per-capita demand of 225 gallons per person per day (gpcd), or better, by 2020.

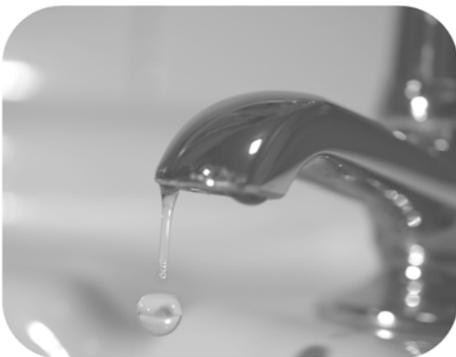
In FY17, the City gpcd was 156 gpcd or 30% below the 2020 threshold.



Community Water Conservation Resources

- ◇ Various equipment rebates to residential and commercial customers to help pay for water efficient upgrades.
- ◇ Free Water Wise house calls with a Water Conservation Specialist who will help you look for the best ways to save water, give you free water saving tips and tools, and pre-qualify you for available rebates.
- ◇ Residential and commercial customer rebate program for turf conversion, irrigation upgrades, and rain barrel installation.
- ◇ Workshops are held throughout the year to educate residents on various water related topics, including Creating a Low-Water Landscape, Water Conservation, and our Water Conservation Ambassador Program.
- ◇ Special training is provided for any resident that would like to volunteer and help their neighbors find leaks, troubleshoot irrigation, report water misuse, and share water conservation information with their community.

WATER QUALITY



DOU Water Quality staff are committed to providing clean, safe and reliable potable water to the City's businesses and residents. Thanks to their efforts, DOU continues to provide water that meets and exceeds state and federal drinking water quality standards. Every year a comprehensive Consumer Confidence Report is prepared and distributed detailing water testing results for transparency. Part of the report features outreach information in 18 languages to ensure all members of our community can have a voice in their local water quality.

Water Quality Staff are continuously working to maintain public trust and be proactive in their monitoring. This year, the DOU laboratory earned certification to test for hexavalent chromium, a known carcinogen. Also, staff are working on a "Lead in Schools" program, working with school administrators to determine lead levels at local schools so that parents and the community can be informed.

Your Rates At Work

The City of Sacramento Department of Utilities is committed to transparency and maintaining the public's trust. Besides energetic public messaging from the DOU, the Utility Rate Advisory Commission reviews and comments on proposals made by the department for changes to utility service rates and conducts public meetings to engage the public on the rate setting process. The newest rate adjustment began in Fiscal Year 2017 with a 10% increase on water services and 9% on wastewater services. DOU staff have been busy using these funds for upgrading and maintaining reliable and safe utility services for the community. The City Council also approved Utility Rate Assistance Program (URAP) expansion to include nonprofit organizations that provide housing. The program helps income-eligible Sacramento households save approximately \$360 a year on their utility costs.

Meter Program—Water

City-wide water meters are planned and installed with community input and transparency. These improvements will allow rate-payers to only be charged for the water they actually use. Customers can monitor their water use and see first hand the impact of water conservation practices. For more details, see the Water Meter Implementation Program on the next page.



9th Street Sewer Project - Wastewater

This Project stretched along 9th Street from G to L St. and completed design on the final leg of the Downtown Sewer Upsizing program, constructed over the last 20 years. The program will reduce outflows, increase efficiency, and increase storage to reduce local flooding. Significant effort is being made to minimize the construction impacts on traffic and local businesses

McKinley Park Storage Facility - Stormwater

A feasibility study began in FY 2017. The vault will be a large cistern that will reduce local combined wastewater (wastewater and stormwater) outflows and flooding during large storm events. The vault only accepts and stores in-flow during storm events. Once the storm event is over, the water will slowly feed back into the combined sewer system for treatment at the Sacramento Regional Wastewater Treatment Plant or the City's wet weather treatment facilities.



WATER METER IMPLEMENTATION PROGRAM



In September 2004, the State of California passed Assembly Bill (A.B.) 2572, mandating that all water service connections receive water meters by January 1, 2025. One year later the City began one of the most significant capital improvement projects in the history of the Department of Utilities. In response to ongoing drought conditions, in 2015 the Department received City Council approval to accelerate the program by four years, moving the metering deadline from the end of 2024 to the end of 2020.



The state mandate did not provide funding to help offset costs for these improvements. So the City has secured funding through two rate adjustments from 2013 to 2020, grants and bond sales. By 2016, the City had obtained \$239.5 million in water bond funds and various grant to minimize the financial burden on customers. The “Meters Matter” website provides valuable updates, background and opportunity for feedback to communities where work is taking place. A dynamic map is available for tracking past and future metered areas. In FY17, over 17,000 meters and 6,110 lineal feet of distribution main were placed as a result of new installations and meter retrofits, including replacements. As of July 1, 2017, the City was 73% metered.

FY2017 PROJECT STATUS AND SCHEDULE

- Elmhurst/Oak Park & Colonial Heights *Construction 14% Complete. Est. completion: February 2018*
- Tahoe Park Water Main Replacement Phase 2 *Construction 14% Complete. Est. completion: June 2018*
- Land Park Phase 3 Water Main Replacement and Water Meter Retrofit *Design Complete. Contract award pending.*
- North Sacramento Water Main Replacement and Water Meter Retrofit *Design Complete. Contract award pending.*
- Valley Hi Water Meter Retrofit *Design Complete. Contract award pending.*
- South Sacramento Water Main Replacement and Water Meter Retrofit *Design Complete. Contract award pending.*

FISCAL YEAR 2017 FINANCIAL SUMMARY

The Department strives to maintain a sustainable financial structure that responsibly invests in infrastructure, ensures full cost recovery and appropriate reserves, and optimizes financial resources.

Revenue

Revenue is generated from monthly service charges for water, wastewater, and storm drainage. Other revenue includes development impact fees, interest, and inter-governmental payments. Other revenue for Water includes the wholesale of water to other agencies. DOU also collects wastewater fees on behalf of Sacramento Regional County Sanitation District (SRCSD).

Grants

In fiscal year 2017, the Department was awarded approximately \$100 thousand in grant funds for utility programs and projects.

Debt Management

In late fiscal year 2017, the Department issued long-term revenue bond debt primarily to fund the Accelerated Water Meter Program, approximately \$52M.

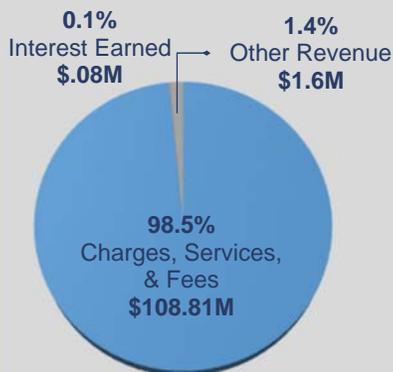
Bond Credit Ratings

The City of Sacramento maintained excellent credit ratings and a stable outlook with two major rating agencies.

Rating Agency	Water	Wastewater
Fitch	AA-	AA
Standard & Pooors	AA	AA-

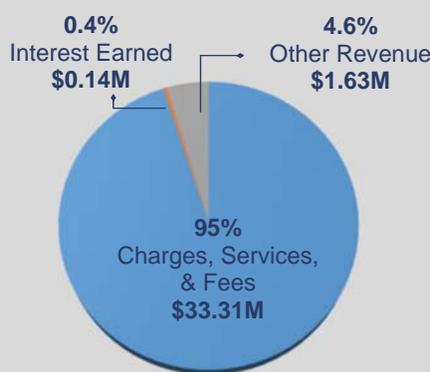
WATER FUND

Total Revenues: \$110.49M



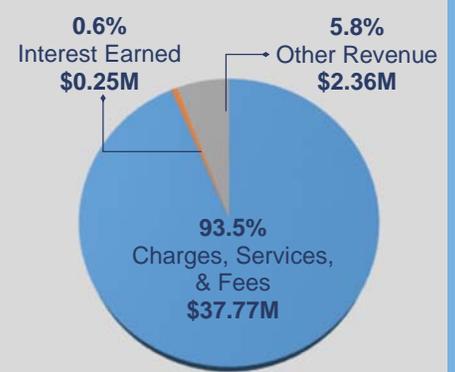
WASTEWATER FUND

Total Revenues: \$35.08M

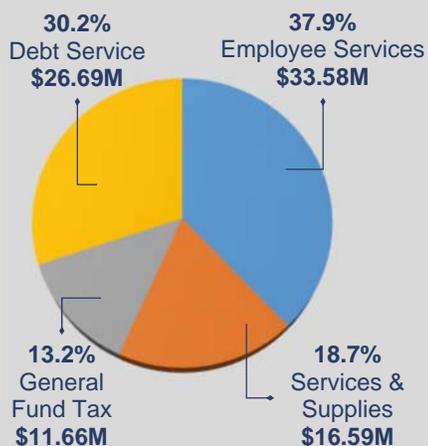


STORM DRAINAGE FUND

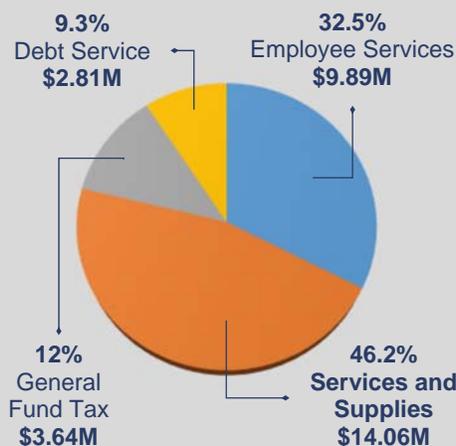
Total Revenues: \$40.38M



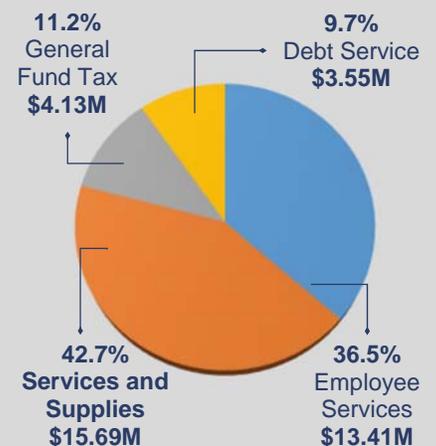
Total Expenses: \$88.52M



Total Expenses: \$30.41M



Total Expenses: \$36.77M



FY17 Revenues and Expenditures include User Fee Fund results only. Does not include Revenues and Expenses from Development Impact Fee Fund, Grant Projects Fund, Water and Wastewater Revenue Bonds Funds. Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2017.

Fulfilling the Strategic Plan—FY17

In 2013, the Department of Utilities created a Strategic Plan, wherein 5 goals were identified to accomplish our Mission “To provide our customers dependable, high quality water, storm drainage, and wastewater services in a fiscally and environmentally sustainable manner.” In Fiscal Year 2017, DOU staff accomplished these goals in hundreds of ways, here are just a few:

Public Trust—*Build and maintain public confidence and understanding through communication, delivery of quality services, responsive customer service and compliance with environmental regulations*

- ◇ Successfully completed comprehensive customer relationship survey of 30,000 customers covering all Divisions within the Department of Utilities to gauge what do our customers consider good customer service.
- ◇ Key members of the DOU formed a “Lead Committee” and created a Draft Lead Update report which outlines a plan to be pro-active and keep the public informed.
- ◇ DOU developed the “Lead in Schools” program, developing materials including checklists, templates and procedures for school outreach and worked with State Water Resources Control Board Electronic Data Transfer unit to develop better ways to send school lead results.
- ◇ Completed Lead and Copper Rule sampling on source waters and in customer homes.
- ◇ All Title 22 drinking water monitoring and proficiency testing was completed on time.
- ◇ Completed monitoring on wells to determine water quality deterioration after down time.
- ◇ Testing phase of the Sacramento River Water Treatment Plant Filter Loading Study completed .
- ◇ Provided comments and stakeholder input on several State Water Board and Central Valley Water Board efforts, including the Bacteria Provisions and the Bay-Delta Phase II Working Draft Science Report prepared for the Sacramento Stormwater Quality Partnership, and Basin Plan Amendments in the Sacramento and San Joaquin River Basins regarding secondary drinking water standards and a de-designation process for agriculturally dominated water bodies prepared for the Sacramento River Source Water Protection Program.
- ◇ Completed the Stormwater National Pollutant Discharge Elimination System (NPDES) Annual Report and Combined Sewer System (CSS) NPDES Permit Annual Report.
- ◇ Division of Drinking Water Monthly Reports were 100% in compliance
- ◇ Created Recycled Water and Groundwater Master Plans to outline strategic and integrated water resource management
- ◇ Completed replacement of asbestos cement in the critical launder system at the Combined Wastewater Treatment Plant (CWTP) on schedule and on budget.
- ◇ Revamped CWTP security policies and procedures concerning access control and evacuation with enhanced infrastructure including security fencing and alarms.
- ◇ Began feasibility study for the 30 million dollar underground storage at McKinley Park and did electrical work on supporting pump stations.
- ◇ Reconstructed the electrical systems at sewer lift stations 40 and 146 and worked on drainage pump station 9 on Florin Creek .
- ◇ Installed flow meters and improved communication and SCADA equipment to support meters.

Fulfilling the Strategic Plan—FY17

Reliability—*Deliver reliable services through proactively monitoring and maintaining our assets and reducing system vulnerability*

- ◇ Began and completed nearly 40% of the construction on Shasta Park Reservoir, booster pump station and Well 165 (2500gpm flow rate).
- ◇ Completed electrical upgrades, reconstruction and maintenance at multiple locations to ensure pump station reliability and worker safety
- ◇ Contracted for on-call underwater diving and remote operated vehicle services for the investigation, cleaning, and repair, of water supply facilities as needed.
- ◇ Began the process of consolidating 33 emergency action plans (EAPs) into one concise, easy to follow document.
- ◇ Updated and adopted the Countywide Local Hazard Mitigation Plan
- ◇ DOU completed a report which assessed filter media at both water treatment plants to maintain, and even improve, water quality.
- ◇ Opened the DOC for excessive rain on several occasions in January 2017
- ◇ Conducted a table top exercise on the new Water Quality Incident Response Draft plan
- ◇ Developed a program to test and rehabilitate all the City's levee relief wells in a five year cycle.

Sustainability—*Plan for current and future generations by protecting, preserving and enhancing water resources, the environment, and the community*

- ◇ Joined Yolo County in a 5 year agreement to safely dispose of residual solids, a by-product of the drinking water treatment processes.
- ◇ Partnered with the Regional Water Authority to participate in a Regional Water Reliability Plan that will identify opportunities for improved water supply reliability for each participating agency.
- ◇ In partnership with CSUS Office of Water Programs, received the CASQA Outstanding Stormwater BMP Implementation Project award for the CSUS Low Impact Design Project.
- ◇ Partnered with the CSUS Office of Water Programs and other local agencies to develop the American River Basin Stormwater Resource Plan (ARB SWRP).
- ◇ Obtained coverage under the State Region-wide MS4 General Permit and completed the Stormwater Pollutant Assessment and Prioritization Results.
- ◇ Continued participation in the Delta Regional Monitoring Program for the stormwater and combined sewer system.
- ◇ Both Combined and Separated Sewer systems experienced overflows that are well below both the State and Region averages for FY17 and compliant with CSPA consent decree terms.
- ◇ Developed the City's water quality comments on the Final environmental document for the CA WaterFix and provided technical support for expert testimony at the State Board water rights hearings on the CA WaterFix regarding the potential for impacts to Sacramento and American River source water quality due to that project.
- ◇ Completed projects at various locations and refurbishment of Alhambra Reservoir LED artwork increased energy efficiency.

Fulfilling the Strategic Plan—FY17

Organizational Performance—*Develop and retain a competent, collaborative and adaptable workforce in an organization that demands accountability and innovation, and ensures cost-effective operations*

- ◇ Developed an Employee Recognition Program in which 223 Kudos were submitted, and 80 Inspiration Coins were awarded. At the 2nd Annual Employee Recognition Event in September 2017, five employees were presented with Impact Awards.
- ◇ Upgraded the camera system at the 24th Ave Corp Yard and purchased fifty additional radios for O&M field personnel.
- ◇ Conducted specialized training in Emergency Preparedness with DOU Operations Center (DOC) participants and field personnel and began work on the DOC website.
- ◇ Conducted winter prep activities which included Flood Functional exercise.
- ◇ Received certification for hexavalent chromium analysis.
- ◇ Performed an evaluation of the E.A. Fairbairn Water Treatment Plant Event that occurred in January 2017. Developed a formula to assist operators in determining amount of alkalinity supplementation needed for optimal treatment.
- ◇ Transformed Geographic Information Systems (GIS) data models to meet the need for better asset management, systems integration, and easier access to data. An industry standard model was used and enhanced to support the department's specific business objectives and needs. The customization was planned with extensive stakeholder input and will allow for network tracing, automatic routing, seamless integration with our work management systems, better asset accuracy, and increased data attributes.
- ◇ By partnering and working in tandem with Public Works, rebuilds curbing annually for budgeted accessibility improvements, the Wastewater Section has been able to upgrade, relocate, and/or install new drain inlets in the Combined System at reduced labor and materials costs. In FY17, the Wastewater Section upgraded, relocated and/or installed approximately 47 drain inlets as part of this annual "ADA Project" within its Drain Inlet Program.

Financial Viability—*Maintain a sustainable financial structure that responsibly invests in infrastructure, ensures full cost recovery and appropriate reserves, and optimizes financial resources*

- ◇ Successfully expanded the Sacramento Utility Rate Assistance program through SMUD data exchange and automatic enrollment and increased participation from 1,800 to over 9,100 at peak participation.
- ◇ Reduced total delinquent charges levied via annual special assessment process from \$5.08 million in FY16 to \$3.64 in FY17.
- ◇ Bond funding was secured for \$62.6 million, including bond premium, to support the implementation of the Water Capital Improvement Program such as Package 1 and 2 of the Accelerated Water Meter Program, replacement of the antiquated Customer Information System billing system, and for rehabilitation and replacement at the Water Treatment Plants.
- ◇ Successfully developed the FY 2017/18 balanced budget for the Water, Wastewater and Drainage funds.
- ◇ Ended FY 2016/17 with a positive net operating result in the Water, Wastewater and Drainage funds.
- ◇ Successfully expended the Wastewater Bond Series 2013 for approximately \$30 million by the end of FY17.

LOOKING TO THE FUTURE

The Department of Utilities continues to face internal and external challenges including aging infrastructure, more stringent regulations, resource constraints, and shifting customer needs and preferences. The Department's Strategic Plan was developed to identify opportunities and prioritize efforts to meet these future challenges. The Vision, Mission, Values, and Goals keep the organization focused while action priorities adjust according to regulatory requirements, asset management priorities, resource availability, and stakeholder issues.

FUTURE OPPORTUNITIES INCLUDE:

- Further efficiency in financing of capital and operational activities
- Enhanced customer services
- Increased operational efficiency through performance measurement
- A more prominent role in local and regional research and development

FUTURE CHALLENGES MAY INCLUDE:

- Continuous rehabilitation and replacement of aging infrastructure
- Compliance with increased and/or stricter regulatory standards
- Developing and implementing policies addressing climate change
- Storm Drainage Rates have remained unchanged for over 20 years, and are not meeting the demand for capital improvement
- Ensuring the drinking water supply can be maintained with regulatory restrictions on pumping and increasing City population
- Maintaining adequate flood protection
- Creating and maintaining spatial data to meet and exceed industry standards

