

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To: Scott C. Stiles
Dept.: City Manager
Subject: Water Supply Program Budget
for Fiscal Year 2021/22 and
2022/23

From: William E. Murray
Dept.: Public Works
Date: June 22, 2021

OBJECTIVE

To receive City Council approval for Fiscal Year 2021/22 and 2022/23 Water Supply Program Budget.

BACKGROUND

The mission of the Water Services Division is to provide a reliable water supply of the highest quality at the lowest possible cost. In keeping with this mission, three major issues must be considered:

- Purchased water and energy costs;
- Improvement of the water delivery system; and
- State and federal water quality mandates

To comply with these issues, and in keeping with the above mission, the Water Services Division has initiated programs such as:

- Working with Orange County Water District to balance the groundwater basin's protection with rate stabilization and with water conservation measures;
- Working with the Metropolitan Water District of Southern California, Orange County Water District, and the Municipal Water District of Orange County to improve water reliability by way of water conservation with grant funding; and
- Compliance with all state and federal water quality standards

On June 23, 2020, Council adopted the City's budget amendment for FY 2020/21. During FY 2020/21, a number of operational and capital goals were met. Projects in progress or completed that are related to the Water Enterprise Fund include the following:

- Completion of the Water Master Plan, and completion of the FY 2020/21 capital replacement projects.

DISCUSSION

Major areas being addressed in the proposed FY 2021/22 Water Supply Program Budget include: water supply budget, water cost factors, and implementation of capital

improvements and replacements. The capital improvement and replacement program for the upcoming fiscal year includes the following:

- Replacement of 5,000 linear feet of main;
- Operate and flush 4,000 fire hydrants;
- Replace 650 service lines;
- Operate gate valves through the City;
- Replace 240 gate valves;
- Construction of the Magnolia Concrete Reservoir Rehabilitation Project;
- Design and Construction of the Alwood Ave and Anthony Ave Water Improvement Project;
- Design of the Above Ground Reservoir Repair Project;
- Design and Construction of the Orangewood Ave and Dale Street Water Improvement Project;
- Continue with the upgrades of the SCADA System; and
- Perform miscellaneous improvements and/or repairs.

FINANCIAL IMPACT

This proposed budget will allow for the Water Enterprise Fund to continue meeting its financial obligations and carry out its capital improvement and replacement programs for FY 2021/22 and 2022/23.

RECOMMENDATION

It is recommended that the City Council:

- Approve the proposed Water Supply Program Budget for FY 2021/22 and 2022/23 as presented.

By: Samuel K. Kim, P.E.
Water Services Manager

Attachment: Water Supply Program Budget FY 2021/22 and 2022/23

GARDEN GROVE WATER SYSTEM HISTORY

The City of Garden Grove established a municipal water department in 1958 and soon became the primary water retailer within City boundaries. It operated with three sub-systems, the "District System", the "Dyke System" and the "City-Owned System", cumulatively serving 29,000 customers.

The oldest and smallest portion, the "District System", was acquired from the County of Orange in 1960, serving 6,600 accounts. The "City-Owned System", made up of about 10,400 accounts, primarily consisted of facilities donated by subdividers. The "Dyke System", the largest component, had about 12,050 service connections. It was originally built and constructed by the Dyke Water Company, then sold to the City in 1965 to consolidate the various systems in the City of Garden Grove and provide an adequate, reliable water supply.

Today the Utilities Division is part of the Public Works Department and is responsible for maintaining wells, reservoirs, and imported water connections. It also provides ongoing maintenance and repair to the water delivery system.

With a population of over 175,000, the water demand is almost 6.5 billion gallons per year. Garden Grove has 13 active wells with a pumping capacity of over 35,000 gallons per minute strategically located throughout the City. Its reservoirs have a total storage capacity of 53 million gallons. Four import water connections provide the City with a total import capacity of 22,440 gallons per minute.

One of the most important jobs of the water supplier is to make sure that the water received is the safest and most healthful water possible. To accomplish this goal requires that we recognize the importance of the highest water quality standards, the presence of a comprehensive testing and monitoring program based on these standards, and the vigorous elimination of any nonconforming situations. In Garden Grove, all these elements of quality control receive the highest attention.

Although Garden Grove obtains approximately two-thirds of its water supply from groundwater storage, the import water supply plays an important role in fulfilling the needs of the City's residents and businesses.

Imported water is delivered to Orange County by way of the Colorado River Aqueduct and from Northern California's State Water Project, which are wonderful solutions to the problem of supplying water to the semi-arid region of Southern California. However, they cannot supply all of our water needs during serious drought periods. The need to conserve our water has become very important during wet as well as dry years.

GARDEN GROVE WATER SYSTEM HISTORY (Cont.)

The City of Garden Grove has adopted a Water Conservation Ordinance, which identifies stages of conservation based on the projected supply and demand for water by its customers on a daily basis. The City is currently in its Stage 1 Water Watch of the Water Conservation Ordinance. The Governor declared an end to the State's drought emergency in April 2017, however, prohibitions on water wasting practices, such as water runoff and watering during or after rainfall remain in place. The City has been implementing certain mandatory restrictions since 2009, which has resulted in a significant reduction of water usage by the City. This was accomplished through public education, the removal of turf from City medians and replacement with drought-tolerant plants, offering residential and commercial water conservation rebates, and continuing our leak detection and prevention program. The City also participates in various Basin Management Programs, which allows replenishment of the water basin, thus conserving water.

City water revenues have been impacted due to conservation efforts in response to State regulations and drought conditions. As a result, there is insufficient funding to complete the Capital Improvement Plan. High-priority facilities rehabilitation and fire flow deficiency projects have been deferred until revenues are stable. A water rate study was completed in March 2018 and evaluated the current financial status of the Water Enterprise Fund, future capital improvement project needs, and different water rate structures. The study provided a 5-year financial plan for future water rates. The new water rates went into effect in April 2018.

In 2020, the second tranche of bond money was used to fund the design and construction of additions and improvements to the City's municipal water system.

**CITY OF GARDEN GROVE
WATER SUPPLY PROGRAM**

BUSINESS PRINCIPLES

1. Satisfy Bond Covenant conditions under which outstanding water revenue bonds were issued.
2. Enterprise fund should break even, not generate a deficit.
3. In order to operate efficiently, a two (2) month cash flow is required, as well as maintenance of \$500,000 in reserves for contingencies.
4. Preserve replacement sinking fund. Ideal amount of fund should approach 5% of system replacement value.
5. Maintain system and facilities up to regulatory industry standards by adequately funding new Capital Improvement Programs.
6. Continue design and construction of priority capital projects conforming to the annual budget.

ISSUES

A. Federal and State Issues

1. New and stricter water quality mandates.
2. New and stricter requirements for NPDES permit.
3. New and stricter discharge requirements.
4. Comply with new AQMD regulations on natural gas engines.
5. Comply with all state and federal water quality standards.
6. Continue to implement new State-mandated certification requirements.
7. Continue monitoring for unregulated contaminants as required by the EPA.
8. Comply with all new State-mandated emergency conservation requirements.

B. Local Issues

1. Continue to improve the infrastructure of the distribution system.
2. Continue programs to meet the California Urban Water Conservation Council's Best Management Practices.
3. Continue to improve the Geographic Information System (GIS) for water systems.
4. Prepare a water financial analysis to offset the revenue deficit due to the drought and mandatory conservation.

WATER SERVICES
FY 2021-22 AND FY 2022-23
(\$000)

<u>FUNDS AVAILABLE</u>	FY 2020-21 Adopted Budget	FY 2020-21 Projected Year-End	FY 2021-22 Proposed Budget	FY 2022-23 Proposed Budget
Beginning Working Capital	\$ 16,636.7	\$ 20,629.0	\$ 23,116.3	\$ 17,514.2
Revenues	40,495.0	40,350.0	42,164.4	43,397.1
Bond Proceeds	4,000.0		7,156.5	4,122.2
Total Sources	<u>61,131.7</u>	<u>60,979.0</u>	<u>72,437.2</u>	<u>65,033.5</u>
 <u>EXPENDITURES</u>				
OPERATIONAL EXPENDITURES				
Labor	6,481.9	6,481.9	6,785.1	6,980.0
Contractual Services	1,813.6	1,813.6	1,726.5	1,748.0
Commodities	837.4	837.4	837.6	837.6
Vehicle Maintenance/Replacement	921.5	921.5	1,024.5	1,032.6
Insurance	263.3	263.3	237.6	306.8
Admin Support	2,338.8	2,338.8	2,359.8	2,359.8
Equipment Purchase	-	-	89.0	-
Purchased Water	27,236.4	17,500.0	23,090.6	19,639.7
Debt Service	3,576.1	3,576.1	3,151.1	3,482.9
Street Repair Charge	775.2	775.2	794.6	814.5
TOTAL OPERATIONAL EXPENDITURES	<u>44,244.2</u>	<u>34,507.8</u>	<u>40,096.4</u>	<u>37,201.9</u>
 CAPITAL EXPENDITURES				
Capital Replacement	3,304.9	3,304.9	3,720.1	3,668.9
Capital Improvements	4,000.0	50.0	7,156.5	4,122.2
Capital Carryover	0.0		3,950.0	
TOTAL CAPITAL EXPENDITURES	<u>7,304.9</u>	<u>3,354.9</u>	<u>14,826.6</u>	<u>7,791.1</u>
 TOTAL EXPENDITURES	 <u>51,549.1</u>	 <u>37,862.7</u>	 <u>54,923.0</u>	 <u>44,993.0</u>
 Total Sources	 61,131.7	 60,979.0	 72,437.2	 65,033.5
Total Expenditures	51,549.1	37,862.7	54,923.0	44,993.0
Ending Working Capital	<u>\$ 9,582.6</u>	<u>\$ 23,116.3</u>	<u>\$ 17,514.2</u>	<u>\$ 20,040.5</u>