



# Santa Clara Valley Water District

**File No.:** 18-0395

**Agenda Date:** 5/23/2018

**Item No.:** 2.3.

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Provide Direction on the Operational Approach for the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water) Project B4 Good Neighbor Program: Encampment Cleanup for Fiscal Years 2019 - 2028 (FYs 19-28); and Approve the Transfer of up to 90 Percent of the FY18 Net Rental Income from Properties Purchased Through the Watershed and Stream Stewardship Fund (Fund 12) to Fund the Encampment Cleanup Project in FY 19.

### **RECOMMENDATION:**

- A. Select one of the following operational approaches for the Encampment Cleanup Project for FYs 19-28, or provide such other direction as the Board deems appropriate:
1. Limit the number of cleanups each year to the Key Performance Indicator (KPI) target of 52;
  2. Limit the number of cleanups each fiscal year based upon the funding available by committing 90 percent of the net rental income from properties purchased through Watersheds Fund 12 (Fund 12 rental properties) to pay for this expense; or
  3. Aim to meet the community demand for cleanups in FY19 dependent upon available financial resources, and budget for anticipated community demand through Fund 12 for FYs 20-28; and
- B. Approve the transfer of up to 90 percent of the FY 18 net rental income from Fund 12 rental properties to fund the Encampment Cleanup Project in FY19.

### **SUMMARY:**

#### ***Encampment Cleanup Project Current Financial Status***

On April 11, 2017, the Board approved utilizing up to 90 percent of each FY's net rental income from Fund 12 rental properties to fund the B4 Good Neighbor Program: Encampment Cleanup Project (Encampment Cleanup Project) for FY 20 through FY 28. In FY 18, 90 percent of the net rental income from Fund 12 rental properties equates to approximately \$750,000; however, each FY the funds available through the net rental income from Fund 12 rental properties may vary depending on whether there are rent increases, tenant defaults in rent payments, or increased costs of maintaining and managing of the properties. The available net rental income will also depend upon the district's flood improvement project schedule for demolishing residences along the Upper Guadalupe River, as that rental income will discontinue.

At the time the Board made the decision to utilize up to 90 percent of each FY's net rental income from Fund 12 rental properties, it was anticipated that the Encampment Cleanup Project would have sufficient funding to meet its KPI in FY 19 through revenue generated by the Safe, Clean Water Program without this rental income. Due to significant increased community demand for cleanups, resulting in higher expenditures than anticipated, those funds are no longer available in FY 19.

The Encampment Cleanup Project is currently over-spent at 96 percent of its total Safe, Clean Water 15-year allocation and is projected to be more than 100 percent spent before the end of FY18 at the current spending rate, with 10 years remaining in the Program. This means there are no remaining funds for the Encampment Cleanup Project in Safe, Clean Water Fund 26.

### ***Encampment Cleanup Project Anticipated Expenditures***

Based upon the increasing number of encampments along our waterways, District staff does not anticipate that up to 90 percent of the net rental income estimated to be generated from Fund 12 rental properties each year between FYs 20-28 will be sufficient to address the water quality impacts from encampments, or meet the community's demands for encampment cleanups. Spending trends indicate that to meet the community demand, the Encampment Cleanup Project will need to expend approximately \$1.2 to \$1.4 million, with incremental inflation cost increases, each fiscal year.

The Board-adopted FY 19 budget includes \$927,131 for the Safe, Clean Water Fund 26 Encampment Cleanup Project, however, the project is over-spent from an overall Safe, Clean Water Program perspective (15-year project allocation). Since long-term financial modeling shows that the Program's contingency reserves have been allocated, proceeding with spending against the \$927,131 FY 19 budget could impact another project's KPIs, by utilizing funds that are allocated to other Safe, Clean Water projects. In addition, a Board decision to reallocate funds from another project to the Encampment Cleanup Project would first require a public hearing if any project's KPIs are affected. Also, a public hearing would be required if the Board were to choose to modify the Encampment Cleanup Project's KPI's or close the project.

To avoid impacting any Safe, Clean Water Project's KPIs, staff is recommending that the Board approve the transfer of up to 90 percent (\$750,000) of the FY18 net rental income from Fund 12 rental properties to fund the Encampment Cleanup Project in FY 19. The amount of the transfer will depend on which of the operational approaches the Board approves for the Encampment Cleanup Project. This action would not require a public hearing.

Below is the analysis for each of the operational approaches under consideration.

### ***Operational Options to Meet Encampment Cleanup Project Expenses***

#### **1. Limit the number of cleanups each year to the KPI target of 52**

While this approach will allow the District to meet the Safe, Clean Water Program's commitment to the voters, the benefits of the project will be limited due to the high re-encampment rate along our waterways. During the past four FYs, the project has performed an average of 358 cleanups

annually. Performing only 52 cleanups a year will leave trash and other pollutant loads that result from the encampments to contaminate our waterways and damage District facilities. Based upon the average expenditures and average number of cleanups performed, the District estimates that performing 52 cleanups to meet the project's KPI would cost approximately \$175,000, plus incremental inflation cost increases, per year through FY28, which could be fully funded through allocating only about 23 percent of the net rental income from Fund 12 rental properties.

This approach requires a transfer of \$175,000 from Fund 12 net rental income in FY 18 to Fund 26 to fund the Encampment Cleanup Project's FY 19 budget (Recommendation B); after FY19, due to the entire 15-year Safe, Clean Water financial allocation having been spent, the Encampment Cleanup Project will be closed in Fund 26 and opened in Fund 12 to be funded through the net rental income from Fund 12 rental properties for FYs 20-28.

***2. Limit the number of cleanups each year based upon the funding available each FY***

Based upon the approximately \$750,000 net rental income available in FY 18, the District estimates that the project could perform approximately 250 cleanups in FY 19. While this is significantly greater than the KPI of 52 cleanups, it still falls short of the average of 358 annual cleanups. Further, the demand for cleanups has been increasing and the net rental income will decrease as rental properties purchased as part of Upper Guadalupe Flood Protection Project are demolished. This will further reduce the number of cleanups the District can perform each FY, which will leave a larger gap between our level of service and community demand and result in an increase in trash and other pollutant loads contaminating our waterways and damaging District facilities.

This approach requires a transfer of \$750,000 from Fund 12 net rental income in FY 18 to Fund 26 to fund the Encampment Cleanup Project's FY 19 budget (Recommendation B); after FY19, the Encampment Cleanup Project will be closed in Fund 26 and opened in Fund 12 to be funded through the net rental income from Fund 12 rental properties for FYs 20-28.

**3. Aim to meet the community demand for cleanups in FY19 and budget for anticipated community demand through Fund 12 for FYs 20-28**

This option entails the transfer of \$750,000 from Fund 12 net rental income in FY 18 to Fund 26 to fund the Encampment Cleanup Project's FY 19 budget (Recommendation B); and requires the District to seek additional funding sources to close the expected expenditure gap in FY 19 by identifying approximately \$450,000 to \$650,000 in funding by requesting the transfer of unspent Fund 12 FY18 project dollars from other operational projects.

In FYs 20-28, the expenditures would be budgeted according to the anticipated demand for encampment cleanups (approximately \$1.2 to \$1.4 million each FY) through Fund 12. To offset the impact to Fund 12, the District will seek partnership opportunities and mitigation credit for encampment cleanups.

This option will best enable us to meet the community demand in FYs 19-28 and reduce the impact of encampments on our waterways by limiting trash and other pollutant loads contaminating our

waterways and damaging District facilities.

This approach requires a transfer of \$750,000 from Fund 12 net rental income in FY 18 to Fund 26 to fund the Encampment Cleanup Project's FY 19 budget (Recommendation B); and requires the District to seek additional funding sources to close the expected expenditure gap in FY 19 by identifying approximately \$450,000 to \$650,000 in funding by seeking partnership opportunities, mitigation credit, and requesting the transfer of unspent Fund 12 FY18 project dollars from other operational projects. After FY19, the Encampment Cleanup Project will be closed in Fund 26 and opened in Fund 12 with a budget of approximately \$1.2 to \$1.4 million, with incremental inflation cost increases, each FY in FYs 20-28.

In consideration of the funding limitations relating to ongoing efforts to perform Project B4 Good Neighbor Program: Encampment Cleanup, staff is requesting the Board's direction on the Project's operational approach for FYs 19-28.

**FINANCIAL IMPACT:**

The financial impact of Recommendation A. varies depending on which option is selected by the Board or pursuant to other direction provided by the Board.

The financial impact of Recommendation B. is the transfer of up to \$750,000 from Fund 12 to Fund 26 Encampment Cleanup Project (26771027) in FY 18.

**CEQA:**

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

Attachment 1: PowerPoint

**UNCLASSIFIED MANAGER:**

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