



SAUSALITO-MARIN CITY SANITARY DISTRICT

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Ten Year Strategic Plan

FEBRUARY 2010



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February, 2010

To: Donald L. Beers, *President*
Ann Arnott, *Vice President*
William R. Berkman
Raymond G. Gergus
Norman C. Wohlschlaeger

SUBJECT: TEN YEAR STRATEGIC PLAN

Submitted for your consideration is a proposed Ten Year Strategic Plan. This document is intended to facilitate discussion by presenting relevant technical and financial information on significant operational, capital and regulatory challenges that the District is expected to contend with over the next ten years. Planning sessions have been scheduled for February 25, and 26, 2010, where open dialog between the Board, staff, and District consultants will supplement the information presented in the report. The Board's ultimate decisions as a result of the process will help establish direction for the District and staff over the next several years.

[Signed Copy of File]

Robert A. Simmons
General Manager

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Introduction

Over the next ten years, the District is expected to contend with many significant operational, capital and regulatory challenges. These challenges will require advanced planning to ensure adequate financial resources are available in the future when they are needed. In addition, there will be opportunities to improve the delivery of wastewater services to District customers. Among the known and anticipated challenges and opportunities are the following:

- Increasingly stringent environmental regulations governing the treatment of peak wet weather wastewater flows and the prevention of sanitary sewer overflows.
- Aging infrastructure requiring continuing investment in collection, conveyance and treatment facilities.
- The potential for a 20% reduction in operating revenue should TCSD re-route its wastewater flow to the SASM treatment plant as it is currently studying. At the same time, the re-routing of TCSD would create opportunity to reduce capital costs and would improve plant performance by reducing dry and peak wet weather flow and plant odors.
- Opportunity to increase collaboration with satellite collection agencies and neighboring treatment agencies in furthering the improvement of wastewater services, efficiencies and sharing of resources.
- Highly responsible wastewater collection and treatment services will be increasingly important to avoid regulatory enforcement action and third party lawsuits
- Opportunities to improve the performance and reliability of the treatment plant through continued upgrade of District facilities.
- Difficult decisions will need to be made to balance the financial needs of the District against the financial demands placed on District customers during these difficult economic times.
- Obtaining community support for proposed increases in sewer service charges will require convincing and persuasive reasons why its in the community's best interest to pay more for wastewater collection, conveyance and treatment services.
- Addressing the perceived inequity of charging multi-family customers the same cost of service as single family customers. In 2004 and 2008, ratepayers from the houseboat and

multifamily dwelling communities raised objections to paying the same sewer service charge as single family dwelling residents. The District's policy of charging residents of all dwelling units equally will likely remain an issue as the District proceeds to raise rates to generate revenue to meet operations and capital requirements. Since this policy is again likely to be questioned, a review of the policy would be in order.

- Another issue that might be raised is the District's policy of charging residential and commercial customers equally, across the District for conveyance and treatment system operating and capital cost, irrespective of the flow and loads placed on the system. This was an issue raised by Marin City residents in 2008 when they questioned the fairness of being charged the same rate as City of Sausalito residents, even though their collection system is newer and does not contribute as much I&I when compared to the City's and TCSD's collection systems. District response to the Marin City Community Service District Board appeared to be satisfactory as the issue was not raised since.
- The District's easement agreement with the National Park Service for the treatment plant site will be expiring in about five years and a satisfactory renewal agreement needs to be secured. In addition, obtaining additional easement rights for future treatment plant improvements may be challenging. Finally, the equity of not recovering the District's cost of treating wastewater from Forts Baker, Barry, and Cronkite from the Park service might be reviewed in the context of rent-free use of the treatment plant site.
- Energy prices are expected to continue to climb. Capturing energy from our digester gas may be a practical, as well as a "green" endeavor. As our gas production is low for most applications, a suggested approach would be to target energy consumption during peak electric hours (M-F from 12-6 PM during summer months) by compressing unused gas into a tank and then burning it during peak hours in a reciprocating engine/gen set. A small amount of propane may need to be added to boost the BTU value of the gas. A pre-heating exchanger to capture exhaust gas heat could also be included.

This list of challenges and opportunities is not considered all inclusive. In this regard, staff requests input from the Board and stakeholders on any other challenges or opportunities that come to mind. Many of the above challenges are complex, interrelated and will largely drive the amount of the rate increases that the Board will ultimately be asked to approve, beginning in the spring of 2010.

This document attempts to help facilitate strategic decisions by presenting relevant technical and financial information in a concise but comprehensive fashion. The Board's ultimate decisions will establish the direction for the District and staff over the next several years. This document is

intended to be supplemented with open dialog with the Board during strategic planning sessions tentatively scheduled in February.

O&M and capital cost projections have been updated. Included for the Board's review is the following financial information:

1. Summary of historic and projected O&M revenue and expenses, including staffing plan and other pertinent information.
2. Existing and proposed reserves levels.
3. District revenue requirements and projected sewer service charges through FY 2019.
4. Bond/loan requirements for the capital project expenditures.
5. Existing and projected City of Sausalito sewer rates.
6. Technical and comparative evaluation of the three viable wet weather improvement alternatives, including collection system rehabilitation, equalization storage, and treatment plant improvements.

Board guidance is sought with respect to the wet weather improvement program or combinations of programs that it believes to be the most viable given the information available at the time of this report. Under the USEPA Administrative Compliance Order, the District is required to prepare and submit a Capacity Assurance Plan by October 15, 2010. The plan is to propose collections and treatment plant improvements to eliminate spills and the treatment practice known as blending. Not known at this time is the design flow and associated storm recurrence frequency that will ultimately be acceptable to USEPA and the Regional Water Board in the sizing of system improvements and extent of collection system rehabilitation required to reduce I/I. Also unknown is whether or not TCSD will shift all or part of its wastewater flow to SASM. Recent discussions with TCSD suggest that it may not be able to purchase the full amount of capacity needed to re-route the entirety of its flow.

A final decision on the specific wet weather improvement program scope and cost cannot be made at this time for the reasons presented above. The scope and cost of equalization storage and collection system rehabilitation improvements will largely depend on whether a 5-year, 10-year or 20-year recurrence frequency design flow is ultimately approved by the regulatory agencies. Consequently, the District's ultimate improvement plan may not be known for some time, possibly not before the spring of 2011.

The Board’s tentative approval is sought for proposed operating budget cost projections, the scope of work, schedule and estimated budget for each capital project, proposed reserve levels and the recommended sewer service charge rates. Finally, direction is sought on next steps to involve stakeholders and District residents.

Once decisions are made and direction received, staff will make the necessary changes in the proposed operating and capital budget projections and will request Hilton Farnkopf Hobson’s assistance in updating the financial model, providing financial advise and recommendations, and preparing a final draft multi-year financial plan for Board review and approval. In addition, the Lew Edwards Group will be requested to begin work on the development of an effective public education and outreach program.

Background

The Sausalito-Marin City Sanitary District is an independent special district organized under the California Health and Safety Code. The District provides wastewater service to the residents of the City of Sausalito and the residents of unincorporated areas within the District’s service boundary, including Marin City. It also provides wastewater service under contract to the Tamalpais Community Services District and the U.S. Department of Interior, National Park Service in the areas commonly referred to as Fort Barry, Fort Cronkite, and Fort Baker. The District also provides wastewater service to the Muir Woods National Recreation Area via TCSD. The population and equivalent dwelling units (EDU’s) located in the City of Sausalito, TCSD, unincorporated areas and the National Park Service are presented in Table 1.

Table 1 – Service Population and Equivalent Dwelling Unit of District²

Agency	Population Served	Equivalent Dwelling Units³
Unincorporated Area of SMCS	3,426 (21.6 %)	2,412 (22.4%)
City of Sausalito	7,158 (45.2%)	5,721 (53.1 %)

TCSD ¹	5,265 (33.2%)	2,300 (21.3%)
NPS	Varies	350 (3.3%)
Total	15,849	10,783

¹ Figures represent the approximate population and EDU's currently served by SMCSO

² Population from Southern Marin County Sewer Service Alternatives Study Report by PB Consult Inc. dated April 2005. EDU's from 2009 Marin County Assessor Tax Roll and includes commercial, industrial and institutional.

³ Commercial, industrial, and institutional customers in unincorporated area and in City of Sausalito total 835 EDU's and 1,739 EDU's, respectively

As presented in Table 1, the population served by the District is approximately 15,849 capita and the equivalent dwelling unit count is 10,783. TCSD makes up about 33.2% of the District service population and 21.3% of the District's EDU count. The number of EDU's estimated for the NPS was derived by taking the NPS average dry weather flow (63,000 gpd) and dividing by 180 gpd, the average wastewater flow from an equivalent dwelling unit. NPS EDU's makes up about 3.3% of the total EDU's served by the District, including TCSD.

Single Family and Multiple Family Dwelling units and Houseboats

Table 2 presents the number of houseboats, single family dwelling units and multiple family dwelling units that exist in the City of Sausalito and in unincorporated areas in FY 2009/10. Data was collected from the 2008/09 Marin County Assessor's tax roll.

Table 2 – Single and Multiple Family Dwelling Units and Houseboats

Agency	Single Family¹ Dwelling Units	Multiple Family Dwelling Units
Unincorporated Area of SMCSO	542	579
Houseboats (Unincorporated)	421	35
City of Sausalito	1928	2054

Total	2,891	2,668
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¹ Includes single family (Use code 11) and single family attached (Use code 14)

A total of 2,869 single family dwelling units are located within the District’s service area. Of these, 421 are houseboats. No Information is available comparing the relative size and number of fixture units for a single family dwelling and a single family houseboat.

District Sewer Service Charge Policy

The District charges every dwelling unit owner the same sewer service charge, irrespective of the type of dwelling (e.g. single family, multiple family, or houseboat). During the Proposition 218 public hearings of 2004 and 2008, residents of the houseboat and multiple family communities raised objections to the District charging the same sewer service rate for multiple family dwellings and houseboats as it does for single family dwellings. Their contention was that multiple family residences and houseboat discharge less wastewater flow compared to larger, single family residences and, therefore, should be charged less.

From review of the population and residential occupancy data in Tables 1 and 2, above, staff notes that the current average District per capita occupancy of combined single family and multiple family residences is 1.8 capita per dwelling unit, which is low compared to TCSD where the average occupancy is 3.0 people per dwelling. Population and land use are dynamic and change over time.

The Budget Committee of the Board noted that domestic wastewater flow and loads do not substantially dictate the District’s cost of operations, maintenance, and capital improvements and therefore may not be an appropriate basis on which to set rates. The size of facilities and corresponding capital and renewal and replacements costs are largely dictated by peak wet weather flow, land use considerations and other considerations. Similarly, operational costs, such as for staffing, services, maintenance and repair activities, are largely dictated by the quantity of facility assets, maintenance frequency requirements, and operational considerations.

The issue is complex. To assist in the evaluation of it, the District Board authorized Hilton Farnkopf and Hobson to conduct a cost of service study for the purpose of evaluating the District’s existing sewer service policy and making recommendations to the Board. The results of the HFH study are expected by the March/April 2010. John Farnkopf is scheduled to attend the strategic planning session to begin discussion on this matter.

Revenues

The District collects the majority of its sewer service charges from customers on the Marin County Assessor tax rolls. A small number of commercial and institutional entities are billed directly by the District. TCSD is billed quarterly based on an estimate of its share of the District annual operating and capital budget. The payments are reconciled against actual expenses at the end of the fiscal year following completion of the District audit.

The District's sewer service charge was increased in FY 2008/09 from \$298 to \$388 per equivalent dwelling unit for City of Sausalito and unincorporated area residents. Revenue derived from sewer service charges in FY 2008/09 totaled \$3,245,600.

Unincorporated area residents pay an additional charge of \$50.66 for collection system maintenance and repair. This charge was last increased in 2004. Revenue derived this charge was about \$118,000 per year. Sewer maintenance costs average about \$30,000 per year. The remainder, \$88,000 per year is reserved for rehabilitation and repair of sewers and pump stations in the Marin City and Highway Booster service areas.

In addition to sewer service charges, the District receives property tax revenue from the County. In FY 2008/09, property tax revenue totaled \$504,100, which represents approximately 15% of the revenue derived from sewer service charges. For the purposes of this preliminary financial evaluation, it is assumed the property tax revenue will decrease by 20% in FY 2010/11 due to the drop in home values and the State budgetary situation and escalate thereafter by 2.5% per year over the remaining years ending 2019.

In 2009, NPS annual wastewater flow represented about 5% of the total flow entering the plant. The percentage of NPS annual wastewater flow would increase to 6.4% if TCSD wastewater is removed. The National Park Service is billed only when its wastewater flow exceeds 5,000,000 gallons per month. It is billed at 75% of the District's normal sewer service charge rate per contract. The NPS rarely exceeds its monthly treatment allocation, except during very high wet weather flow months. For all practical purposes, the NPS does not contribute any revenue to the District to cover its cost of service. For the purposes of this financial evaluation, it is assumed that no revenue will be received from the NPS over the next ten year period. District charges to NPS would be expected to be 75% of the District's single family sewer service charge to account for their need for treatment service only. At an expected annual sewer service charge of \$650 per EDU, revenue from the NPS might be expected to total about \$170,000 per year. Note that the District does not pay rent for the NPS land on which the District's treatment plant is situated.

The Board might consider the differential between the fair market rent for the land and the fair market value of the treatment services provided by the District in its .

In 2009, interest income, connection fees and other miscellaneous income totaled \$132,000. FY 2006, 2007, and 2008 annual revenue from these sources were \$242,000, \$415,000 and \$203,000, averaging about \$250,000 per year. The financial model computes interest income at 4% of the reserve balances and includes connection fee income at 12 EDU per year. Miscellaneous income is not included in the financial model.

In FY 2008/09, the District’s total Operating Revenue, excluding TCSD revenue, was \$3,820,000. This compares to \$3,407,000 of operating expenses for the same year. When adjusted for nonrecurring, one time expenses (e.g. Administrative Compliance Order consulting services (\$150,000) and River Watch settlement costs (\$60,000)), the total operating expenses reduces to \$3,197,000. The net positive cash flow in FY 2008/09 was therefore, approximately \$620,000. District operating expenses are projected to increase by about \$900,000 over the next ten years or about 4% per year. Escalation due to inflation is therefore estimated at a total of 48% over. With the rerouting of TCSD flow to SASM, operating revenue would decrease 20%. When added to the inflation rate, the total net increase in revenue requirements for the Operations fund would be about 68% over the ten year period.

TCSD Revenues

In FY 2008/09, O&M revenue from TCSD was approximately \$624,342. TCSD O&M revenue has typically averaged about 22% of SMCSO’s O&M expenses over the past four years.

District Reserves

The District reserve policy provides for four reserve funds, Operating, Capital, Renewal and Replacement and Disaster Recovery. Operating Fund reserves have been established at 75% of annual expenditures, which is needed for cash flow purposes. FY 2009/10 actual reserves and FY 2019 targeted reserves are presented below:

	<u>FY 2009/10¹</u>	<u>FY 2019 (target)</u>
Operations:	\$1,810,000	\$2,940,000
Capital:	\$2,790,000	\$5,750,000
Renewal & Replacement	\$ 330,000	\$ 330,000
Disaster Recovery	<u>-0-</u>	<u>\$1,500,000</u>
Total:	\$4,930,000	\$10,500,000

¹ Does not include outstanding principle and interest associated with the SMCSO's inter-district loan to TCSO which will total \$1,302,000 in FY 2014.

The District reserve policy provides for 1) Operating reserves at 75% of annual O&M expenditure, 2) capital reserves at 1.5 times the average projected annual capital expenditures over ten years, and 3) renewal and replacement at 1.5 times the average annual R&R expenditures.

If the TCSO decides not to re-route its wastewater flow and the SMCSO/TCSO service agreement is not amended to eliminate the payment of TCSO's non-depreciated capital contribution, the Board might consider establishing a fifth reserve account to fund the liability. Currently, the payment requires loan financing.

Operating Budget Projections

The highest single expense in the O&M budget is employee salary and benefits. From 2006 through 2009, the ratio of salary and benefits to total Operations expenses averaged about 48%. Under the planning scenario where SMCSO continues to treat TCSO wastewater flow, this ratio is projected to increase to 61% over the next ten year period ending 2019. The ratio would be 64% if TCSO terminates its service relationship with the District. This higher ratio reflects a change in funding philosophy for "Other Post Employment Benefits" (OPEB, retiree health benefit). Rather than continue to accumulate liability for OPEB's as has been the District's practice in the past, it is proposed that a fund be established to fund the OPEB liability of both retirees and current employees. The alternate approach would be to continue to pay OPEB after employees retire and report the liability yearly on the District's audited financial statements per the requirements of GASB 45. Table 3 presents actual operation and maintenance (O&M) expenses over the past three and projections through the year 2019, including annual OPEB payments.

Assumptions regarding Operating Cost Projections

The following assumptions have been made with respect to operating cost projections:

1. Escalation of costs due to inflation is projected to be 4% per annum.
2. District staffing would be stabilized at 12 FTE following retirements of existing, long tenured employees. Current year staffing is 14.5 FTE.

3. There will be no major changes in the District's employee compensation program.
4. Benefit costs include the current projected liability for "Other Post Retirement Benefits", which has been calculated based on a 30-yr amortization of existing retiree health care costs.
5. Withdrawal of TCSD is projected to result in a 20% reduction in the cost of power, chemicals, and biosolids disposal, which is attributable to proportional reduction in wastewater flow. This corresponds to a 3.3% reduction in the overall Operating budget. Staffing and services remain unchanged as asset maintenance and repair requirements and operational considerations do not change with the reduction in wastewater flow.

Table 3 – Comparison of Actual, Budgeted and Projected Operating Expenses, FY 2007 through FY 2019

	Actual Expenses				Budget	Projected Expenses							
	2006-07	2007/08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Salary	695,144	911,295	1,040,027	1,182,636	1,182,296	1,100,689	1,144,716	1,190,505	1,238,125	1,287,650	1,339,156	1,392,723	1,448,432
Social Security	52,168	66,311	72,123	86,890	91,235	84,938	88,335	91,868	95,543	99,365	103,340	107,473	111,772
Pension	202,031	257,744	303,418	353,489	371,163	345,544	359,366	373,741	388,690	404,238	420,407	437,224	454,713
Employee Benefits	180,797	222,337	248,091	534,679	561,413	522,662	543,568	565,311	587,923	611,440	635,898	661,334	687,787
Workers Comp	3,626	15,778	18,814	20,528	21,349	23,091	24,015	24,975	25,974	27,013	28,094	29,217	30,386
Chemicals	144,789	165,604	186,147	220,500	229,320	248,033	257,954	268,272	279,003	290,163	301,769	313,840	326,394
Conference/Training	12,924	14,532	19,236	22,300	23,192	25,084	26,088	27,131	28,217	29,345	30,519	31,740	33,010
Consulting Services	77,514	151,808	206,807	165,400	96,176	104,024	108,185	112,512	117,013	171,693	178,561	185,703	193,131
Permit	156,699	191,537	337,827	264,350	87,350	94,478	98,257	102,187	106,275	110,526	114,947	119,545	124,327
Fuel	16,143	12,699	9,754	8,100	8,424	9,111	9,476	9,855	10,249	10,659	11,085	11,529	11,990
Monitoring	43,950	52,162	90,552	50,500	52,520	56,806	59,078	61,441	63,899	66,455	69,113	71,877	74,752
Power	229,978	222,959	205,628	215,000	223,600	241,846	251,520	261,580	272,044	282,925	294,242	306,012	318,252
Insurance	28,797	26,180	29,228	25,870	26,905	29,100	30,264	31,475	32,734	34,043	35,405	36,821	38,294
Repairs	258,675	211,389	321,767	236,000	245,440	265,468	276,087	287,130	298,615	310,560	322,982	335,902	349,338
Solids Disposal	37,935	23,003	38,434	35,423	36,840	39,846	41,440	43,098	44,822	46,614	48,479	50,418	52,435
Supplies	45,172	67,924	78,198	45,000	46,800	50,619	52,644	54,749	56,939	59,217	61,586	64,049	66,611
Phone	11,694	14,635	14,066	18,100	18,824	20,360	21,174	22,021	22,902	23,818	24,771	25,762	26,792
Vehicles	15,433	18,318	19,562	15,453	16,071	17,383	18,078	18,801	19,553	20,335	21,148	21,994	22,874
Safety	21,072	16,050	37,474	83,050	26,232	28,372	29,507	30,688	31,915	33,192	34,519	35,900	37,336
Water	2,723	10,259	5,521	5,600	5,824	6,299	6,551	6,813	7,086	7,369	7,664	7,971	8,290
Accountant	1,687	609	-	-	-	-	-	-	-	-	-	-	-
Assessor Roll Fees	12,058	12,956	13,105	13,500	14,061	14,623	15,208	15,816	16,449	17,107	17,791	18,503	19,243
Audit	7,700	8,000		9,200	9,568	9,951	10,349	10,763	11,193	11,641	12,107	12,591	13,095
Director	25,120	24,480	27,200	30,080	30,236	31,446	32,704	34,012	35,372	36,787	38,259	39,789	41,381
Election Expense	-	-	-	9,000	-	10,130	-	10,957	-	11,851	-	12,799	-
Legal Notice	813	1,671		1,000	1,040	1,082	1,125	1,170	1,217	1,265	1,316	1,369	1,424
Legal General	31,480	39,348		31,720	32,989	34,308	35,681	37,108	38,592	40,136	41,741	43,411	45,147
Legal Special	0	14,167		8,000	8,320	8,653	8,999	9,359	9,733	10,123	10,527	10,949	11,387
Office Expense	3,962	5,146	4,169	16,000	8,000	8,320	8,653	8,999	9,359	9,733	10,123	10,527	10,948
TOTAL	2,217,149	2,813,291	3,417,168	3,707,369	3,475,187	3,354,790	3,426,470	3,574,485	3,706,070	3,866,163	4,058,485	4,233,623	4,389,657
TOTAL w/o TCSD									3,589,502	3,744,933	3,932,405	4,102,500	4,247,835

Table 4 - Full Time Equivalent Positions FY's 2007 through 2019

	FY2007/08	FY2008/09	FY2009/10	FY2010/11	FY2011/12	FY2012/13
General Manager	1	1	1	1	1	1
Plant Superintendent	0.7	1	1	1	1	1
O&M Supervisor	1	1	0.5	0	0	0
Laboratory Director	1	1	1	1	1	1
O&M Tech III/Lead Operator	1	1	1	0	3	5
O&M Tech II	0	0	2	2	2	0
O&M Tech I	1	3	1	4	0	0
Operator-in-Training	1.3	0.6	3	0	0	0
Mech. Maintenance Tech. I/II/III	1.5	1	1	1.8	1	1
Office Manager	1	1	1	1	1	1
Administrative Assistant	0	0.2	1	1	1	1
Assistant/Associate Engineer	0.7	1	1	1	1	1
Total FTE Staff	10.2	11.8	14.5	13.8	12	12

In 2007/08, the District began implementing a transition plan in preparation for the turnover of existing staff due to retirements. A total five new operator trainees were hired to work under the tutelage of experienced staff that were expected to retire over the next several years. This temporary staffing increase was done to train the new employees and to ensure that vital information on plant and collection system operations and maintenance was passed on and to ensure a well trained work force. In addition to the operator trainee positions, a Plant Superintendent, an Assistant Engineer and an Administrative Assistant were also hired to help with increased workload. It was planned that the O&M Supervisor position would not be filled and its duties would be incorporated into the Plant Superintendent position.

In 2001, the District adopted a policy whereby Operators could automatically advance to senior level positions by gaining the skills, knowledge, and experience required of the position. The policy is known as flexible staffing. In addition, the District Board adopted an incentive program to encourage employees to obtain certification in a wide variety of area such as maintenance, laboratory and operations. This program promoted cross training and skills development. Many of the existing and new employed have availed themselves of these opportunities. By FY 2012/13, it is expected that all the new operators will advance to senior level positions and hold multiple discipline certifications and the District will continue to have a high trained and motivated workforce.

It is proposed that District staffing be set at 12 FTE's once all of the near term retirements take

place, which is expected in FY 2011/12. Staff plans to implement a maintenance management program this fiscal year and once the database is populated with equipment work activities, level of service, and labor requirements, a more comprehensive review of staffing can be performed.

Note that the Plant Superintendent and Lab Director will make a presentation to the Board at the strategic planning session on the benefits obtained from increasing staffing levels above the 12 FTE positions presented above.

Capital Program

The District's capital improvement program includes projects that will rehabilitate/replace facilities that have reached the end of their useful life, upgrade District's collection and treatment facilities to enhance performance and reliability, and ensure that the District can comply with new regulatory requirements. Projects that fall in these categories and their projected costs include the following:

A. Rehabilitation and Replacement Projects

	PROJECT	BUDGET
1.	Sodium Bisulfite Building and Plant Improvements	\$1,000,000
2.	Plant Effluent, Influent, and Supernatant Boxes Rehabilitation	250,000
3.	Digester Cleaning, Influent Pipe Strengthening and Secondary Digester Improvements	650,000
4.	Primary & Digester Structure Seismic Improvements	1,250,000
5.	FFR Pump Gallery Inspection and Renewal	600,000
6.	Locust Street Pump Station (LSPS) Improvements	1,350,000
7.	LSPS Force Main & 24-inch Gravity Sewer Study and Improvements	2,500,000
8.	Marin City Collection System Repair and Rehabilitation	1,300,000
9.	Marin City Pump Station and Force Main Study and Improvements	450,000
10.	Highway Booster Pump Station, Force Main, and Influent Sewer Study and Improvements	1,100,000
11.	Princess Street Pump Station Improvements	150,000

12.	Private Lateral Inspection and Repair	40,000
	Total Cost	\$10,640,000

B. Plant Upgrade Projects

	PROJECT	BUDGET
1.	FFR Odor Control Improvements	\$300,000
2.	SCADA Improvements	400,000
3.	Treatment Plant Headworks	12,900,000
	Total Cost	\$13,600,000

C. Regulatory Compliance Projects

	PROJECT	BUDGET
1.	Wet Weather Improvement Project (High Rate Clarifier/ Equalization Storage)	\$6,000,000 to \$24,000,000
	Total Cost	\$6,000,000 to \$24,000,000

Capital Improvement Program Schedule

The capital improvement program schedule, covering the period ending in FY 2019, is presented in Figure 1 below. Note that the Capital Improvement Program schedule above reflects one of several wet weather improvement alternatives that were evaluated as part of this preliminary financial plan. Board review and approval of proposed capital improvement projects, budget and schedule is sought.

Capital Improvement Projects	TCSD Funding	Project Budget	Projected										
			FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
- Treatment Plant Improvements													
Sludge Dewatering Facility Improvements	25.4%	\$120,000	\$120,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sodium Bisulfite Storage Improvements	0.0%	\$1,000,000	\$450,000	\$550,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plant Odor Control Improvements	25.4%	\$300,000	\$0	\$0	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plant SCADA System Improvements	25.4%	\$400,982	\$35,000	\$35,400	\$35,822	\$36,845	\$36,845	\$36,845	\$36,845	\$36,845	\$36,845	\$36,845	\$36,845
Treatment Plant Headworks	25.4%	\$12,900,000	\$600,000	\$1,800,000	\$5,500,000	\$5,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Primary Effl. Box, Infl. Box & Supernatant Box Rehab.	25.4%	\$250,000	\$0	\$0	\$250,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-Term Facilities Plan & GGNRA Easement Agreement Extension	25.4%	\$450,000	\$0	\$150,000	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Digester Cleaning, Influent Piping Strengthening, Sec Digester Improvements	25.4%	\$650,000	\$0	\$0	\$100,000	\$550,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Primary & Digester Structure Seismic Improvements	25.4%	\$1,250,000	\$0	\$0	\$0	\$0	\$200,000	\$1,050,000	\$0	\$0	\$0	\$0	\$0
High Rate Clarifier (Expansion of Sec Trmt Capacity/Replacement of Sand filters)	25.4%	\$6-9 mil	\$750,000	\$2,000,000	\$3,250,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Fixed Film Reactor Pump Station and Reactor Inspection and Renewal	25.4%	\$600,000	\$0	\$0	\$0	\$0	\$0	\$0	\$100,000	\$500,000	\$0	\$0	\$0
Administration Bldg & Site Improvements	25.4%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
- Conveyance System & Marin City Sewer System													
Locust St. Pump Station Improvements	42.0%	\$1,350,000	\$350,000	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Portable Emergency Engine Driven Pumps	15.0%	\$60,000	\$60,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Pump Station Reliability Improvements	10.0%	\$120,000	\$0	\$120,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Wet Weather Equalization Storage Basin (not budgeted)	27.0%	Up to \$22 M	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Locust Street Pump Station Force Main & 24" Gravity Sewer Study and Improvements	42.0%	\$2,500,000	\$0	\$0	\$0	\$0	\$0	\$0	\$1,250,000	\$1,250,000	\$0	\$0	\$0
Marin City Collection System Rehabilitation	0.0%	\$1,300,000	\$300,000	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marin City Pump Station & Force Main Study & Improvements	0.0%	\$450,000	\$0	\$50,000	\$0	\$0	\$0	\$400,000	\$0	\$0	\$0	\$0	\$0
Highway Booster PS, Force Main and Infl. Sewer Study and Improvements	0.0%	\$1,100,000	\$0	\$100,000	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Princess St. Pump Station Study and Improvements	0.0%	\$150,000	\$0	\$50,000	\$0	\$100,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Private Lateral Inspection and Rehabilitation	0.0%	\$40,000	\$10,000	\$10,000	\$10,000	\$10,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
- Other Capital Expenses													
Capital Outlay and Unknown Future Capital Projects	25.4%	\$850,000	\$75,000	\$25,000	\$25,000	\$25,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Maintenance Management Sys & Computerized O&M	25.4%	\$60,000	\$35,000	\$25,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Financial Analysis Study	0.0%	\$40,000	\$40,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Engineering and Construction Management Staff Costs	22.0%	\$1,848,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000
Total		\$54,668,982	\$3,693,000	\$11,383,400	\$23,688,822	\$9,889,845	\$754,845	\$1,754,845	\$1,654,845	\$2,054,845	\$304,845	\$254,845	\$304,845

Key Planning Decisions

Several significant capital planning decisions need to be made. These decisions involve 1) selection of a tentative improvement program to address wet weather overflow and blending issues and 2) a determination whether the District will continue to treat TCSD wastewater after 2014, the date when TCSD is contractually able to terminate its service agreement with the District. Presented below is a brief description of the advantages and disadvantages of the most viable wet weather improvement plan approaches.

Wet Weather Improvement Project

Wet weather overflow and blending problems can be corrected by implementing a program that includes a combination of some, or all, of the following elements:

- Rehabilitation of public and private sewer infrastructure,
- Implementation of an upstream underground flow equalization storage basin
- Implementation of treatment plant improvements to increase treatment capacity and performance reliability during peak flows

These corrective measures have been discussed and presented publicly at community meetings. Among important considerations with respect to these improvement measures include the following:

Rehabilitation of Public and Private Sewers

A collection system rehabilitation program would have to address both public sewers and private sewer (house laterals) to effectively reduce I/I. Rehabilitation of private sewer lines would require implementation of a policy that can result in costly repairs for individual property owners and therefore may be difficult for them to accept. Collection system rehabilitation is a long term program, requiring 10 to 30 years to complete. Uncertainty exists regarding the level of I/I reduction achievable by sewer rehabilitation program. The majority of achievable I/I reduction would likely not come about until the end of a rehabilitation program, and not necessarily proportionate to the percent of rehabilitation completed.

Despite these issues, the Regional Water Quality Control Board has indicated that sewer rehabilitation is its preferred method of correcting high wet weather I/I problems. In their view, this approach corrects the problem at its source and remedies other causes of

overflows in older sewer systems, such as root intrusions, collapsed pipes, etc. However, the estimated cost of system wide collection system rehabilitation is greater than the cost of equalization storage. Therefore, heavy reliance on I/I rehabilitation to avoid the cost of equalization storage does not lower total program costs. However, costs for collection system rehabilitation are spread out over a longer period of time compared to the other wet weather improvement measures. This would result in less upfront costs and spreading the sewer service charges increases over more time.

Disadvantages include disruption to traffic, residents, and property, and the need for an effective policy to rehabilitate private sewer lines. The consequences of not implementing collection system a repair and rehabilitation program could be increased regulatory enforcement action and third party lawsuits.

Another issue to be considered with respect to choosing a wet weather improvement strategy is exfiltration. While not currently on the regulatory radar, except in some special cases, collection exfiltration of wastewater from sewers has been claimed by some to be a source of environmental harm and public health concerns. Unlike the other wet weather improvement approaches, public and private lateral rehabilitation program would address both inflow and infiltration and exfiltration, a potential future regulatory concern.

Underground Flow Equalization Storage

Underground flow equalization storage is an effective means of correcting wet weather overflow and blending issues. It can be implemented in relatively short period of time (3- 4 years). It allows for a reduction of up to 50% of the required capacity of downstream conveyance and treatment facilities. It would minimize the treatment capacity needed at either the current treatment plant site or at a new site if this is possible.

The basin provides increased flexibility for emergency purposes and for extended repair/rehabilitation of downstream collection and treatment facilities by allowing storage of about half of the dry weather flow to the treatment plant for up to 4 days.

It would lessen the amount of collection system rehabilitation, which would significantly reduce disruption to traffic, residents, and property. For example, equalization storage would allow the 20-inch force main from Locust Street to the Horizons Restaurant to be upgraded with a cured-in-place liner (or with slip lining) rather than direct replacement, which would cause open construction in the street (The cured-in-place liner alternative appears feasible for other wet weather improvements, if TCSD re-routes a significant portion of its flow to SASM.)

Short term construction impacts would impact a smaller percentage of the City for a shorter period of time when compared to a comprehensive collection system program.

Because of the geotechnical conditions at the potential storage sites acceptable to the City of Sausalito, the cost of equalization storage is much higher than originally envisioned at the start of the wet weather studies. Based on these revised costs, storage may still play a role in the overall wet weather strategy (with a smaller storage volume), but a higher reliance on increasing treatment plant capacity may become cost effective.

Treatment Plant Improvements

If TCSD proceeds to re-route its wastewater flow to the SASM, wet weather overflows in the collection system will no longer be an issue because peak wet weather flow will be reduced and within the capacity of the existing conveyance system. Treatment plant peak wet weather flows would be reduced, but not enough to eliminate blending. Therefore, improvements at the plant, equalization storage, I/I rehabilitation, or some combination thereof, would still be needed to eliminate blending during peak flow conditions.

The least costly way to address this scenario would be to increase the peak capacity of the plant to approximately 10.5 MGD by using a process called ‘ballasted flocculation’ to provide secondary treatment to flows in excess of 6 MGD (the current peak capacity of the FFRs).

The Regional Water Board advises that ballasted flocculation must meet secondary treatment standards, which means achieving 30 mg/L Biochemical Oxygen Demand (BOD) and total suspended solids (TSS) discharge limits on a daily basis and at least 85% reduction in the BOD and TSS concentrations entering the plant on a monthly basis. RMC Water and Environment believes ballasted flocculation to be a viable alternative to treat peak wet weather flow that is currently bypassed. Ballasted flocculation provides excellent TSS and TSS related BOD removal. It does not perform well in the removal of dissolved/colloidal BOD, which presents a certain level of risk that it would not be able to meet secondary level treatment standards. Typically, peak wet weather flow is very dilute wastewater and TSS is the predominate pollutant of concern.

At conference presentations the EPA has given indications that using ballasted flocculation would be an acceptable way of avoiding blending, but has not come forward with a formal policy on this approach. Thus, use of this approach runs the risk that EPA can

change direction, and not accept this approach in the future. EPA's willingness to reverse direction is evidenced by EPA's approval of EBMUD's remote wet weather facilities in the 1980's, followed by their recent prohibition against the continued use of the very same facilities.

With careful sizing of the ballasted flocculation facilities, this process could also be used to polish the secondary effluent for flows up to approximately 6 MGD. The existing sand filters perform this function now, but are limited to 1 MGD and are turned down routinely during wet weather when flows exceed 4 MGD to prevent plugging and subsequent shutdown and cleaning.

The estimated cost of a 6 MGD ballasted flocculation project is about \$5.0 million and would obviate the need to replace the sand filters, which are 20 years old and will reach the end of their useful life in about 10 more years. The replacement value of the sand filter is estimated to be about \$1.5 million. Avoiding the need to replace the sand filters would reduce the net cost of ballasted flocculation by approximately \$0.9 million. [Assuming the \$1.5 million cost is in today's dollars, 5% interest over 10 years.]

A second treatment alternative would be to increase the capacity of the existing FFRs to approximately 9 MGD. This would result in a hydraulic loading on the FFRs of approximately 2.5 gpm/ft², which is considered the upper limit for the type of media in the FFRs. Under this alternative, a 9.0 MGD ballasted flocculation process would be constructed and operated in series with the existing secondary clarifiers to ensure compliance with final discharge limits. A 9.0 MGD ballasted flocculation process is estimated to cost \$6.5 million.

If this capacity could be developed at the treatment plant, some level of equalization storage and/or I/I rehabilitation would still be needed to avoid blending at the plant, although the amount would be substantially reduced. The reduction may be such that I/I rehabilitation could be relied upon without the need for equalization. (This concept has not yet been modeled in the system-wide hydraulic model.)

Because of the potential to lower project-wide costs, it is recommended that stress testing of the FFRs be conducted after this wet season to help confirm whether the existing FFRs could tolerate a flow rate of 9 MGD. It is also recommended that additional flow modeling be conducted to confirm the frequency and duration of high wet weather flows greater than 6 MGD. This modeling can also assess the degree to which equalization storage and/or I/I rehabilitation should be used for overall lowest project cost.

If stress testing confirms that the FFRs can tolerate flows up to 9 MGD, this alternative offers the advantages of lower project wide costs while also avoiding use of ballasted flocculation as a secondary treatment process and the associated risk of the EPA changing its direction. It also may offer the flexibility of relying on a reasonable level of I/I rehabilitation without the need for flow equalization.

Regional Water Board and USEPA Approvals

The District, City of Sausalito and TCSD are currently operating under a USEPA/Regional Water Board Administrative Compliance Order, which was issued to the three agencies in April 2008. As part of the Order, the District is required to submit a Capacity Assessment Plan and a Capacity Assurance Plan to USEPA and the Regional Water Board for approval by October 15, 2010. The Capacity Assessment Report is to address the following requirements:

- a.) Identify areas , sources and quantities of significant inflow to the sewage collection system,
- b.) Identify areas sources and quantities of significant infiltration to the collection system;
- c.) Identify any bottlenecks in the collection system which lack sufficient capacity to convey sewage flows through the collection system and to the District's treatment plant.
- d.) Provide a discussion of the impact of wet weather flow from one agency to another as well as the impact on the SMCSD WWTP.

The Order requires each agency to prepare a Capacity Assurance Plan, which is to propose and schedule improvements identified in the condition and capacity assessments. Proposed improvements are to be sufficient to eliminate spills from collection systems and the wastewater treatment plant during peak wet weather. In issuing the Order, USEPA and the Regional Water Board did not specify the criteria on which peak wet weather flow impacts should be assessed, however. The lack of specificity leaves the assessment requirements open ended and subject to interpretation and challenge.

The District is in the process of preparing its Capacity Assessment evaluation, which will identify the impacts of peak wet weather flow on the District's collection system and treatment plant. To address the issue of assessment criteria, staff is tentatively planning to present impacts based on three wet weather flow criterion, a 5-year, 10- year and a 20-year return frequency design flow. According to

RMC, most Bay Area public agencies have designed their collection facilities for a five-year flow event. Staff also tentatively plans to include scenarios where TCSD re-routes all, some (50%) and no flow to SASM in the preparation of the Capacity Assessment Report. The report is scheduled to be completed and submitted to USEPA by April 2010. Staff plans to coordinate the District's capacity assessment approach with the City of Sausalito and TCSD so all three agencies are consistent in their report submittals to USEPA and the Regional Water Board.

Work on the Capacity Assurance Plan has not yet been scheduled but should get started by April to meet the October 15, 2010 deadline. Preparation of the plan is expected present significant challenges. Among the challenges are 1) determining the appropriate balance between protection of the environment (vis-à-vis design flow selection), affordability (with respect to the size and cost of improvements), and achieving regulator approval of the proposed plan and 2) TCSD intentions with respect to re-routing flows to SASM. Note that wet weather improvements and cost presented in RMC's 2008 Wet Weather Conveyance and Treatment Evaluation Report were based on sizing wet weather improvement facilities to convey a 5-year design flow without sewer surcharge, and containing a 10-year design flow, with sewer surcharge. It is unknown whether this design flow criteria will be acceptable to USEPA/Regional Water Board. The District's Capacity Assurance Plan requires close coordination with the City and TCSD.

Staff tentatively plans to assess wet weather improvement requirements and costs based on 5, 10, and 20 year design flows. A comparative evaluation will be performed to identify the best apparent improvement plan that would be protective of the environment while being cost effective and reasonably affordable to the community. Board comments are sought with regard to whether to include or exclude all or part of TCSD flow from the District's Capacity Assurance planning. Alternatively, staff could seek an extension of time on submittal of the plan until TCSD and SMCSO can meet and negotiate a mutually acceptable amendment to the existing agreement that would the future needs of both Districts. Additionally, updating the agreement between the City of Sausalito and the District is also required to ensure enduring commitment to the implementation of wet weather improvements over time.

To conclude, the selection of a specific wet weather improvement plan may not be known for some time until regulatory approval is received and TCSD/SMCSO have met to explore a long term service commitment. It is recommended that the Board consider the wet weather improvement cost projections contained in this report as preliminary. Given the uncertainty that now exists, it is recommended that the merits of a multi-year sewer rate increase plan versus a single year increase be considered by the Board.

City of Sausalito/SMCSD Services Agreement

In 1953, the District and the City of Sausalito entered into an agreement which set forth the responsibilities of the two parties with regard to the collection, conveyance, treatment and disposal of wastewater from the City of Sausalito. Under the terms of the agreement, the City agreed to maintain the sanitary sewage system within the corporate limits of the city and the District agreed to maintain the interceptor mains, pumping plants, treatment plant and outfall. In addition, the District agreed to inspect all new sewer laterals and the city agreed to maintain the sewer lateral within the city's corporate limits.

In 1958, the agreement was amended to provide for District maintenance of pumps within City limits and the City agreed to bear the cost of the District's pump maintenance services.

It is recommended that the Board and the City start a process to update the agreement to meet current service requirements, including control of fats, oil, and grease, and emergency assistance, I/I control and peak wet weather flow limits. This is especially important if the two agencies decide to cooperate jointly in a program to reduce peak wet weather flow and increase secondary treatment plant capacity in meeting the requirements of the USEPA ACO. Clear and definitive responsibilities need to be established to ensure future Boards and Councils understand their respective obligations.

TCSD/SMCSD Service Relationship

As previously mentioned, the District provides wastewater conveyance and treatment services to TCSD under contract. The District serves approximately 90% of the households in TCSD with the remaining 10% being served by SASM. Under the terms of the contract, TCSD is able to terminate the District's service provided at least one year written notice of such termination is given to the District. If TCSD terminates service, it is entitled to receive its contributive share of capital improvement costs, less depreciation. The District is obligated to reimburse TCSD within 45 days of the date of termination.

In 2004, TCSD requested that the District finance its capital charges from FY 2004/05 to FY 2007/08, which the District agreed to do. In exchange, TCSD agreed not to terminate service for ten year period. Therefore, TCSD agreed not to terminate service before 2014. It is estimated that TCSD would be owed about \$4.0 million in non-depreciate share of its capital contribution in 2014.

TCSO has retained consultants to study the feasibility of re-routing all of its flow at the SASM plant for treatment. Recent consultant reports concluded that, while further studies are needed, it does appear feasible to re-route and treat all of TCSO wastewater flow at SASM. Among the required improvements is the expansion of existing equalization storage pond capacity from 3.3 million gallons to 5.3 million gallons. SASM is investigating expansion of the pond to hold peak wet weather flows in excess of 7.0 million gallons.

Among the requirements for TCSO to be able to re-route its flow is the ability to purchase about 2400 EDU of excess capacity from SASM member agencies. The TCSO Board President advised that only the City of Mill Valley is hesitant about selling capacity at this time. TCSO is unable to terminate the District's service contract unless the city agrees to sell a significant amount of the excess capacity it owes. The District has been pressing TCSO for a decision on its long term service requirements for over a year. TCSO is waiting on sale commitments from SASM member agencies before it makes a commitment to the District. The TCSO Board President has indicated that TCSO intends to buy as much of the excess capacity that SASM member agencies are willing to sell in order to re-route part or all of its flow to SASM by 2014.

In February 2010, the TCSO Board President advised the SMCSO Board that TCSO wants to amend the terms of the service agreement with SMCSO to place a cap on the amount of capital charges that SMCSO would charge TCSO. TCSO requested SMCSO financing of capital charges if the charges are expected to exceed the cap. At the time, TCSO indicated it was continuing to pursue re-routing of its flow to SASM. The SMCSO Board has not taken a position with respect to the request but indicated its willingness to work with TCSO to help identify a mutually acceptable solution. It is recommended that the Board consider what it would like to receive in exchange for the cap on capital charges.

The TCSO Board President also suggested that if it is unable to acquire sufficient capacity to re-route all of its flow to SASM, then he would like to look into approaching LAFCO to formally extend SMCSO's service boundary to include the part of TCSO's service area that SMCSO would continue to provide conveyance and treatment services to. He indicated that TCSO wants to continue to provide collection system services to this area, similar to the arrangement that the City of Sausalito has with SMCSO.

Recent discussions with TCSO indicate that the City of Mill Valley appears unwilling to selling excess treatment capacity to TCSO at this time. The city recognizes that the existing equalization storage ponds are of significant value to them in dealing with its own wet weather flow problem. The equalization storage ponds provide a very cost effective alternative when compared to implementing a comprehensive city-wide program to repair and rehabilitate sewers.

If TCSD decides to re-route some or all of its flow to SASM, the District would realize some benefit from the decision. Benefits would include reduction in dry and wet weather flows, which would lead to better plant performance and reduced capital expenses in connection with the District's wet weather improvement program. In addition, a small reduction in operating expenses would be realized.

Staff recommends that the Board follow through on TCSD's request to enter into discussions regarding the amendment of the existing service agreement to include a cap on SMCSO's capital charges. Discussion should include exploration of a long term service commitment from TCSD under an amended service agreement or, alternately, the extension of the District's service boundary to include the part of TCSD's service area that would continue to be served by the District. If these discussions do not lead to a satisfactory conclusion, staff recommends that the Board begin planning for the eventual termination of District services by TCSD.