



STAFF REPORT

Meeting Type: Board of Directors

Title: Adopt the Proposed Operating and Capital Budget for Fiscal Year FY 2025/26 and Fiscal Year FY 2026/27

From: Bret Uppendahl, Finance Director

Through: Ben Horenstein, General Manager

Meeting Date: June 3, 2025

TYPE OF ITEM: X Action Information

RECOMMENDATION: Adopt the Proposed Operating and Capital Budget for Fiscal Year 2025/26 and Fiscal Year 2026/27

SUMMARY: Staff has prepared the proposed Operating and Capital Budget for FY 2025/26 and FY 2026/27 for the Board's consideration. The District's two-year budget process incorporates the costs necessary to provide safe and reliable water service over the long term. The all funds expenditure budget for FY 2025/26 is \$186.5 million, which is a 14 percent increase compared to FY 2024/25. Expenditures in FY 2026/27 are increasing by an additional one percent. This expenditure level reflects the District's top priorities as well as inflationary impacts and non-discretionary cost drivers.

DISCUSSION: The District provides high quality water to over 191,000 residents in a 147 square mile area that includes most cities, towns and unincorporated areas within Marin County. Novato and West Marin are located outside of the District's service area.

The District's budget process typically begins six to nine months before the Proposed Budget is finalized. Throughout the fall and winter, staff analyzes prior year actuals, develops revenue projections, and meets with departments to identify cost drivers and unanticipated needs. Staff has provided multiple updates on the budget process during Board meetings, Finance Committee meetings and Planning Committee meetings. These updates began in February, and staff provided additional updates in March and April. On May 6th, the District conducted a Budget Workshop included details on all aspects of the operating budget and also provided an overview of the Capital Improvement Program (CIP).

As shown below, overall expenditures are increasing by 14 percent in FY 2025/26, and increasing by 1 percent in FY 2026/27. Operating expenditures, which provide funding for day-to-day activities are increasing by 4 percent in FY 2025/26 and 5 percent in FY 2026/27. Capital investments, which include water supply and fireflow projects are increasing by 36 percent in FY 2025/26 and are decreasing by 4

percent in FY 2026/27. The decreased capital expenditures in FY 2026/27 largely reflects the expiration of grants.

	FY 24/25	FY 25/26		FY 26/27	
	Approved Budget	Proposed Budget	% Change	Proposed Budget	% Change
Operating Fund	\$109,347,389	\$114,229,846	4%	\$119,714,333	5%
Capital and Fire Flow Funds	\$49,451,000	\$67,235,854	36%	\$64,832,667	-4%
Contribution to Reserves	\$5,000,000	\$5,000,000	-	\$3,500,000	-30%
Total	\$163,798,389	\$186,465,700	14%	\$188,047,000	1%

The increase in operating expenses compared to the prior year is largely attributable to inflationary increases in areas such as personnel, purchased water, electricity, banking fees, and insurance premiums. Increases in capital expenditures include new spending for water supply resiliency projects, increased investments in the Capital Improvement Program (CIP) to reduce the District's deferred maintenance backlog, additional funding for the Biodiversity, Fire and Fuels Integrated Plan (BFFIP), and funding to modernize the District's enterprise resource planning (ERP) software. Finally, the FY 26 capital budget includes \$9.0 million in grant funding for watershed improvements and pipeline replacement projects.

In the second year of the budget (FY 27), the operating budget is increasing by \$5.5 million, or five percent, which reflects a continuation of inflationary impacts in most areas of the organization. The capital budget is decreasing by \$2.4 million in FY 27, or four percent, as grant funded projects are completed. FY 27 reserve contributions total \$3.5 million with \$2.5 million to the water supply project reserve and \$1.0 million to the unrestricted operating reserve.

The following are highlights of the FY 26 and FY 27 budget:

- \$23.7 million in Water Supply investments to support early action projects and future planning, including the atmospheric river conveyance project, the Nicasio spillway modification project, and contributions to the water supply project reserve fund
- \$23.0 million in Capital Infrastructure funding to reduce the backlog of deferred maintenance in district facilities
- \$11.4 million in grant funded projects including the Lagunitas Creek restoration and the Marin City pipeline replacement project
- Four new positions in the Engineering Division were previously approved by the Board to support the increased level of capital improvement projects being undertaken by the District.
- Two new limited term positions in the Watershed Division were previously approved by the Board and are funded through FY 2026/27.

	FY 24/25	FY 25/26		FY 26/27	
	Approved Budget	Proposed Budget	% Change	Proposed Budget	% Change
Operating Fund					
Personnel Services	\$59,528,020	\$62,843,273	6%	\$65,658,329	4%
Materials and Supplies	\$17,740,645	\$18,633,983	5%	\$19,854,801	7%
District Operations	\$18,630,587	\$19,736,410	6%	\$20,087,412	2%
General and Administrative	\$8,745,570	\$9,016,373	3%	\$10,203,084	13%
Debt Service	\$9,402,567	\$9,399,807	0%	\$9,410,707	0%
Allocation to Capital	(\$4,700,000)	(\$5,400,000)	15%	(\$5,500,000)	2%
Total Operating	\$109,347,389	\$114,229,846	4%	\$119,714,333	5%
Capital and Fire Flow Funds					
Capital Purchases	\$1,300,000	\$1,500,000	15%	\$1,700,000	13%
Baseline CIP	\$30,051,000	\$41,550,000	38%	\$47,185,000	14%
Water Supply	\$9,200,000	\$9,700,000	5%	\$9,000,000	-7%
Fireflow	\$4,500,000	\$5,500,000	22%	\$4,500,000	-18%
Grant Funding	\$4,400,000	\$8,985,854	104%	\$2,447,667	-73%
Total Capital and Fire Flow	\$49,451,000	\$67,235,854	36%	\$64,832,667	-4%
Contribution to Reserves					
Water Supply	\$2,500,000	\$2,500,000	-	\$2,500,000	0%
Unrestricted Operating	\$2,500,000	\$2,500,000	-	\$1,000,000	-60%
Total Contribution to Reserves	\$5,000,000	\$5,000,000	-	\$3,500,000	-30%
Total Capital and Operating	\$163,798,389	\$186,465,700	14%	\$188,047,000	1%

Capital Improvement Program Budget

The CIP 5-Year Plan for FY 26 through FY 30 anticipates a total investment of approximately \$328 million. This level of investment is an increase of more than 30 percent compared to the previous 5-year plan and reflects the Board's top priorities of water supply resiliency, deferred maintenance reduction and watershed protection.

As noted previously, the District's budget includes the first two years of the long-term CIP plan and the two-year capital budget is an increase of \$49.6 million, or 60 percent, compared to the prior two-year capital budget. The major categories of projects are summarized below and discussed in greater detail in the Capital Improvement Program section of the Adopted Budget.

	FY 23/24	FY 24/25	FY 25/26	FY 26/27	%
	Approved	Approved	Proposed	Proposed	Change
	Budget	Budget	Budget	Budget	(2 yr)
Pipelines	\$ 12,010,000	\$ 15,276,000	\$ 16,833,000	\$ 21,026,000	39%
Pump Stations	\$ 1,385,000	\$ 4,420,000	\$ 8,780,000	\$ 5,090,000	139%
Storage Tanks	\$ 5,200,000	\$ 6,860,000	\$ 11,585,000	\$ 7,903,000	62%
Treatment Plants	\$ 2,420,000	\$ 1,620,000	\$ 2,970,000	\$ 6,770,000	141%
Watershed	\$ 5,390,000	\$ 5,224,000	\$ 4,517,000	\$ 6,105,000	0%
System Improvements	\$ 3,826,000	\$ 6,851,000	\$ 12,850,854	\$ 8,938,667	104%
Water Supply	\$ 2,750,000	\$ 9,200,000	\$ 9,700,000	\$ 9,000,000	
Total	\$ 32,981,000	\$ 49,451,000	\$ 67,235,854	\$ 64,832,667	60%

Over 90 percent of the revenue required to support District operating activities and capital investments come from customer water rates. The District's water rates for FY 2025/26 and FY 2026/27 were established as part of the 2023 rate setting process. Water consumption has been largely consistent with the assumptions underlying the 2023 rate study and therefore revenue levels are expected to be in-line with previous estimates. Rate revenues are increasing by 9 percent in FY 2025/26 and an additional 6 percent in FY 2026/27. Non-rate revenues, which include rents, permits, fees, interest earnings and grant revenues, are increasing by 83 percent in FY 2025/26 and decreasing by 46 percent in FY 2026/27. This fluctuation is almost entirely driven by grant revenues and interest earnings, both of which are expected to decline in FY 2026/27. Overall, the revenue budget is increasing by 13 percent in FY 2025/26 and by an additional 1 percent in FY 2026/27.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: The Proposed Budget includes expenditure appropriations of \$186.5 million and \$188.0 million for FY 2025/26 and FY 2026/27, respectively.

ATTACHMENT(S):

1. Proposed Operating and Capital Budget for FY 2025/26 and FY 2026/27

DEPARTMENT OR DIVISION	DIVISION MANAGER	APPROVED
Finance	 Bret Uppendahl Finance Director	 Ben Horenstein General Manager