MARIN WATER

STAFF REPORT

Meeting Type:	Finance & Administration Committee/Board of Directors
Title:	Budget Planning Update
From:	Bret Uppendahl, Finance Director and Acting General Manager for Ben Horenstein
Meeting Date:	March 27, 2025 BU

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on the District's Two-Year Budget Process for FY 2025/26 and FY 2026/27

SUMMARY: Staff is preparing the Operating and Capital Budget for FY 2025/26 and FY 2026/27 for the Board's consideration in June 2025. The Marin Municipal Water District (District) utilizes a two-year budget cycle that includes a five year Capital Improvement Program (CIP). The District's current adopted budget for FY 2024/25 is $163.8 million, which is comprised of a $109.3 million Operating Fund, a $49.5 million Capital Fund and $5.0 million in planned contributions to reserves. As part of the 2022 rate setting process, the Board approved the water rate structure for a four-year period from FY 2023/24 to FY 2026/27, and therefore the revenues to support capital and operating expenditures over the next two years are largely dependent on customer water consumption levels. Today, staff will present an update on some of the key inputs to the operating budget.

DISCUSSION: The District's Operating Budget provides funding for ongoing day-to-day operations, including water purchase, water production, watershed maintenance, regulatory compliance, water efficiency, distribution system maintenance, engineering services, meter operations, customer services and administrative support. The operating budget also provides funding for the District's debt service, insurance, and utility costs. Many of the largest expenditure line items are non-discretionary, meaning that they are expenditures required to provide service and the underlying costs are beyond the control of the District.

The District currently has over 250 budgeted positions that support ongoing operational functions and their associated personnel costs comprise approximately 55 percent of the Operating Budget. Under the current labor contract, which is in effect through June 2027, the general salary increase will be 3.13% in FY 2025-26. The general salary increase for FY 2026-27 will be equal to consumer price index (CPI-U) for the San Francisco-Oakland-Hayward metropolitan area, but will not be greater than 5 percent or lower than 2 percent.

Other personnel costs that impact the two-year budget planning process include health insurance and retiree benefits. The District currently provides health insurance to employees through CalPERS, and the District's contribution to active employee health insurance premiums is equal to the median monthly premium for plans offered in Region 1 (Northern California). This year, CalPERS announced increases to all health plans, with an average increase of 9 percent. Based on the District's contribution formula and the enrollment status of current active employees, we expect contributions to health insurance premiums to increase by approximately $400,000, or 8 percent, in FY 2025-26 and we are forecasting an additional increase of 6 percent in FY 2026-27.

Health insurance premium rates also impact retiree health benefits. The District currently has approximately 300 retirees who qualify for health insurance benefits. In 2009, the District established a pre-funding trust with CalPERS, also known as an OPEB trust. Over 600 public agencies in California participate in the CalPERS trust program and the purpose of the OPEB trust is to establish a funding schedule to ensure that funds are available for all future retiree healthcare obligations. Every two years, the District receives an actuarial valuation to calculate the required annual contributions. The actuarial valuation considers the number and relative ages of retirees, the underlying healthcare premium costs, and the value of the District's trust account. Under this trust arrangement, the District's required contributions are a combination of cash payments to retirees, as well as pre-funding payments to the trust. As of December 31, 2024, the District had over $47 million in trust assets. Annual investment returns have a significant impact on the value of the trust and the corresponding annual contribution requirement. Over the life of the trust, the District's assets have grown at a 7.2 percent annualized net rate of return; however, the year-to-year results have ranged from gains exceeding 25 percent, to losses in excess of 13 percent. The most recent actuarial valuation was conducted in June 2024, indicating that the District needed to budget for contributions of $4.1 million in FY 2025-26, which represents an increase of $1.4 million compared to current levels. It should be noted that current contribution levels are historically low as a result of extraordinary market conditions in June 2021, and the FY 2025-26 contributions are in line with historical trends.

Pension contributions are another significant portion of the District's personnel costs. Similar to retiree healthcare benefits, the required contributions for pensions are determined by the CalPERS actuary and are largely dependent on annual investment returns. As is the case with retiree healthcare, the District's annual contributions are a combination of expected cash payments for current retirees, as well as a contribution toward future obligations for active employees. In the most recent actuarial valuation, which was conducted using data from June 30, 2023, the District has assets of $196.7 million, which earned 5.8 percent for the fiscal year. Over the past 20 years, the compound annual rate of return has been 7.0 percent. The District currently has 399 retirees, earning an average of $46,723 in annual benefits, and 211 active employees. Of the District's active employees, more than half are now covered under the PEPRA plan, which was enacted by statewide legislation in 2013 and changed the way retirement benefits are applied to newly hired employees. As a result of the statewide legislation, the District's required contribution for PEPRA employees is about half of what it is for employees hired before 2013. Overall, the District's required contributions are increasing by about $375,000, or 3 percent, in FY 2025-26. The increase is driven largely by increases to the unfunded actuarial liability (UAL) payment, which reflects a multi-year amortization of annual investment gains and losses.

Aside from personnel costs, the largest expenditure line item is purchased water from the Sonoma County Water Agency (Sonoma Water). Historically, the District relies on purchased water for about 25 percent of the potable water supplied to customers. Sonoma Water provides drinking water to nine different agencies in Sonoma County and Marin. Under the current contract with Sonoma Water, the District's minimum water purchase is 5,300 acre feet and the cost per acre foot is $1,610. From 2017 to 2023, the average annual increase in purchased water from Sonoma was 5.1 percent. In 2024, the cost per acre foot increased by 10.6 percent. Sonoma Water is currently in the process of finalizing their water wholesale rates for 2025, and the initial drafts indicate an increase of 8.8 percent for Marin Water. When applied to the minimum purchase of 5,300 acre feet, the updated rates would result in a budget increase of $750,162 for the District.

Over the coming weeks, staff will finalize revenue projections and will wrap up budget review meetings with individual departments. The Engineering Division will present an overview of the Capital Improvement Program (CIP) in April, and staff will provide a more detailed overview of each Division's operating budget in early May. The proposed budget will be presented in June for the Board's consideration.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: None.

ATTACHMENT(S): None.