



# STAFF REPORT

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**Meeting Type:** Board of Directors  
**Title:** Budget Update  
**From:** Bret Uppendahl, Finance Director  
**Through:** Ben Horenstein, General Manager  
**Meeting Date:** June 2, 2026

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**TYPE OF ITEM:**                      Action              X              Information

**RECOMMENDATION:** Receive an update on the District’s budget planning process

**SUMMARY:** On June 3, 2025, the Board of Directors approved a budget covering two fiscal years (FY 2026 and FY 2027). Prior to the start of the second fiscal year, staff presents a financial update, including updated revenue and expenditure projections.

**DISCUSSION:** The District’s FY 2025-26 (FY 2026) approved expenditure budget totals \$185.5 million. Operating expenditures account for \$114.2 million, or 61 percent of the total budget. Capital Expenditures account for \$67.2 million, or 36 percent of the total. An additional \$5 million is included in the FY 26 budget for planned increases to reserves. In FY 2026-27 (FY 2027), the approved budget increases to \$188 million. Operating expenditures are planned to increase by five percent, to \$119.7 million, and Capital expenditures are decreasing by four percent due to a reduction in grant-funded projects. It should be noted that the rate-funded capital budget is increasing by 10 percent. Increased rate-funded capital budgeting includes funding for water treatment facilities, pipeline replacement projects and Automated Metering Infrastructure (AMI).

Staff regularly provides monthly financial updates at the District’s Finance and Administration Committee meetings. Through the first ten months of the current fiscal year, both revenues and expenditures are projected to end the year below the budgeted amount. Expenditures are expected to finish the fiscal year at \$8.5 million less than the budgeted amount, primarily due to savings on personnel costs attributable to vacancies. Total revenues are expected to finish the fiscal year approximately \$6 million less than originally budgeted. Water sales, which are the District’s largest and most volatile source of revenue, are expected to finish the fiscal year at \$8.1 million below the budget due to lower than expected consumption in the first half of the year. However, water rate revenue shortfalls will be partially offset by higher-than-expected interest earnings resulting from persistently high interest rates.

Looking ahead to FY 2027, the District’s revenues will continue to be largely impacted by overall water consumption. As outlined in the approved budget, water rate revenues are expected to increase by 5.7

percent, while other revenue sources are expected to be largely flat, except for multi-year grants. Assuming consumption trends remain largely similar to the current year, which are currently slightly lower than what was originally projected, the District would expect to have a revenue shortfall ranging between \$6.0 and \$8.0 million in rate revenue. Staff expects this shortfall to be largely offset by expenditure savings; however, the exact source of the savings will not be identified until late in the fiscal year.

Expenditures in FY 2027 are expected to be consistent with the budget with a few exceptions. Despite recent increases in recruitment activity, the District continues to experience turnover and retirements that create unanticipated vacancies. This results in savings from Personnel Services ranging between five and ten percent. At this time, staff expects savings from vacancies to be approximately \$3 million in FY 2027. Water purchases from Sonoma County Water Agency (SCWA) will be in line with the approved budget SCWA recently approved their FY 2027 budget with a 7.7% increase for Marin Water purchases.

In total, the District's adopted budget for FY 2027 is expected to be sufficient to support planned operations and capital improvements. Known expenditure increases will likely be offset by savings in other areas. Staff will monitor expenses and will provide regular updates to the Board.

The process for the next two-year budget (FY 2027-2029) will begin in the Fall of 2026, and there will be public discussion and Board workshops in the Spring of 2027. Personnel costs, which are the largest component of the District's Operating budget, are largely in line with previous projections. The District has begun receiving actuarial reports that determine required expenses for retiree obligations. These reports are generally consistent with District's long-term forecast, and staff does not expect any major changes within the next two years. The Board of Directors approved salary scales for District staff in February 2026 which provides four percent cost of living adjustments for FY 28 and FY 29. Healthcare insurance premiums are an exception, as the annual cost increase has been closer to ten percent. CalPERS administers the District's healthcare plans, and the District is currently obligated to provide staff with the median cost healthcare plan among the CalPERS offerings.

The District is also in the early stages of conducting a Cost of Service Analysis (COSA) on the current water rate structure. Staff will be providing regular updates on the water rate study at Board and Finance and Administration Committee meetings throughout the remainder of 2026. The District is planning to conduct a public hearing regarding proposed changes to the rate structure in the Spring of 2027. The key uncertainties impacting the next budget cycle will be interest rates, inflation, purchased water costs, capital investment needs, regulatory changes, staffing needs, rainfall, and water use.

**ENVIRONMENTAL REVIEW:** Not applicable.

**FISCAL IMPACT:** None.

**ATTACHMENT(S):** None.