

# STAFF REPORT

**Meeting Type:** Finance & Administration Committee/Board of Directors

**Title:** Update on District's Budget Process

**From:** Bret Uppendahl, Finance Director

**Through:** Ben Horenstein, General Manager

**Meeting Date:** April 24, 2025

<b>TYPE OF ACTION:</b>	Action	X	Review and Comment
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**RECOMMENDATION:** Review and comment on the Update 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 of adoption in June 2025. The District utilizes a two-year budget cycle that includes a five-year Capital Improvement Program (CIP).

**DISCUSSION:** 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. This budget was developed as part of the District's rate setting process, and was informed by an extensive analysis of the District's capital and operating needs. Water rates are the primary source of revenue for the District, accounting for over 90 percent of the District's total revenue.

As part of the 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. Through the first nine months of FY 2024/25, rate revenues are tracking approximately 4 percent below the approved budget, and it is expected that revenues will finish the year approximately \$5.5 million less than the budget of \$151.5 million.

The District's operating expenditure budget is largely driven by the cost to produce, purchase and deliver water to over 191,000 residents in Central and Southern Marin. Many of the largest expenditure drivers are non-discretionary in nature, such as the cost of electricity for pump stations, chemicals for water treatment plants, and purchases of water from Sonoma County. Personnel costs, which comprise approximately 40 percent of the budget, are driven largely by health insurance rates and required pension contributions.

The projected shortfall in rate revenues will be offset by a combination of interest earnings in excess of the adopted budget and expenditure savings in the operating budget. As a result of higher than expected interest rates, the District will receive approximately \$3.6 million in interest earnings, compared to the budget of \$538,125. Projected expenditure savings of \$10.2 million are comprised of \$4 million in salary savings due to vacancies, \$3.7 million in water purchase and treatment cost savings, \$1.3 million in unspent paving contracts and \$1.2 million in other districtwide savings.

At the April 22<sup>nd</sup> Planning Committee meeting, staff presented an overview of the Capital Improvement Program, including an overview of recommended investments in each asset class as well as a discussion of emerging priorities and updated cost estimates. On May 6, the District will conduct a budget workshop, which will provide an in-depth review of each Division's budget and additional updates on the Capital Improvement Program. Staff will incorporate feedback from the budget workshop and will return to the Board in June with a Proposed Budget.

**ENVIRONMENTAL REVIEW:** Not Applicable.

**FISCAL IMPACT:** None.

**ATTACHMENT(S):** None.