



STAFF REPORT

Meeting Type: Finance & Administration Committee
Title: Mid-Cycle Budget Update
From: Bret Uppendahl, Finance Director
Through: Ben Horenstein, General Manager *BU BH*
Meeting Date: April 23, 2026

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on the Mid-Cycle Budget Update

SUMMARY: The Board of Directors approved a budget covering two fiscal years (FY26 and FY27). Prior to the start of the second fiscal year, staff presents a financial update that includes updated projections for revenues and expenditures compared to the previously approved budget.

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, and 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 nine 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 at approximately \$8.4 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 \$9.5 million below the budget due to lower than expected consumption throughout the year. However, water rate revenue shortfalls will be partially offset by higher than expected interest earnings. If expenditure savings are not sufficient to offset water rate revenue shortfalls, staff will reduce contributions to reserves.

Looking ahead to FY 2027, the District’s revenues will 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 with the exception of 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 \$5.0 and 9.0 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 more expensive than originally budgeted as the SCWA is expected to approve a nine to ten percent rate increase, compared to the budgeted expectation of an 8.5 percent annual increase.

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 report out to the Board, along with regular reporting on water consumption and associated revenues.

The budget process for FY 2027-2029 will begin in the Fall of 2026 and there will be public discussion and Board workshops in the Spring of 2027. 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.