



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Mid-Cycle Budget Update
From: Bret Uppendahl, Finance Director
Through: Ben Horenstein, General Manager *BU*
Meeting Date: June 27, 2024 *BH*

TYPE OF ACTION: Action X Information Review and Refer

RECOMMENDATION: Receive a staff update on the Mid-Cycle Budget

SUMMARY: The Board of Directors approves a budget for the District covering two fiscal years. 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 2023-24 (FY 2024) approved expenditure budget totals \$142.1 million. Operating expenditures account for \$104.1 million, or 73 percent, of the total budget, and Capital Expenditures account for \$32.9 million, or 23 percent of the total. An additional \$5 million is included in the FY 24 budget for planned increases to reserves. In FY 2024-25 (FY 2025), the approved budget increases to \$163.8 million as capital expenditures increase to \$49.5 million to support water supply projects, infrastructure investments and technology upgrades.

Staff regularly provides monthly financial updates at the District’s Finance and Administration Committee meetings. Through 11 months of the fiscal year, which represents 92 percent of the fiscal year, both revenues and expenditures are projected to end the year below the budgeted amount. Expenditures are expected to finish the year \$7.6 million less than originally budgeted, primarily due to savings on personnel costs attributable to vacancies. Total revenues are expected to finish the year approximately \$6.7 million less than originally budgeted. Water sales, which are the District’s largest and most volatile source of revenue, are expected to finish the year \$8.2 million below the budget due to lower than expected consumption throughout the year. Rate revenue shortfalls are offset by higher than expected interest earnings as well as one-time grant revenues associated with the State’s Water and Wastewater Arrearage Payment Program.

For FY 2025, 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 15 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 is slightly lower than what was originally budgeted, the District would expect to have a shortfall of approximately \$5.8 million in rate revenue. This shortfall will be partially offset by greater than expected interest earnings ranging from \$1.4 million to \$1.6 million, depending on changes to the Treasury's yield curve and associated interest rate implications.

Expenditures in FY 2025 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 2025. Water purchases from Sonoma County Water Agency (SCWA) will be more expensive than originally budgeted as the SCWA recently approved a 10.6 percent rate increase, compared to the budgeted expectation of an 8.5 percent annual increase. While the fiscal impact will ultimately depend on the level of consumption, if the District were to purchase the minimum 5,300 AF, this rate increase amounts to \$175,000 in additional unanticipated expenditures. Utility costs have also increased faster than originally planned with PG&E rate increases projected to add between \$300,000 and \$400,000 in expenses to the operating budget.

In total, the District's adopted budget for FY 2025 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 SCWA and PG&E expenses and will report out to the Board, along with regular reporting on water consumption and associated revenues.

The budget process for FY 2025-2027 will begin in early 2025 and there will be public discussion and Board workshops in the spring of 2025. At this early stage, staff expects PG&E and SCWA to be the primary cost drivers, although healthcare costs will be an additional expense driver as Kaiser insurance rates are increasing at levels beyond what was anticipated in prior budget cycles. The key uncertainties impacting the next budget cycle will be interest rates, inflation, regulatory changes, staffing needs, rainfall, and water use.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: None.

ATTACHMENT(S): None.