



CITY OF ORLAND STAFF REPORT

MEETING DATE: May 7, 2024

TO: Honorable Mayor and Council

FROM: Pete Carr, City Manager

SUBJECT: **Fiscal Year 2024-25 Budget Discussion #3: Water, Sewer, Gas Tax, DIF, Debt Schedule** (Discussion/Direction)

City staff will brief Council and seek direction on ongoing progress in preparing a draft proposed budget for the next fiscal year.

BACKGROUND:

City staff is preparing a draft budget for the fiscal year 2024-25 (FY25) which starts July 1. The budget will represent the City's best estimate of probable revenues and a spending plan to support operations and projects consistent with Council direction. Staff will continue to analyze revenue projections and collect cost estimates to produce an evolving budget picture in anticipation of an adoptable budget before July 1st.

ANALYSIS:

This evening's discussion will build on the April 2 and 16 initial discussions about capital projects, fleet replacement schedules, and Measure A Public Safety Fund. We will review a proposed draft Measure A Public Safety Fund budget in process of revision, and a newly consolidated fleet replacement schedule. We will then take our first look at the Water Fund and Sewer Fund budgets, review the Gas Tax Street Fund budget and Development Impact Fee (DIF) funds balances, and consider the updated schedule of debt obligations.

Direction received from Council this evening will further inform staff analysis as we proceed with formulation of the final proposed budget which is planned for presentation to Council for consideration of adoption on June 7th. On May 21st we will examine General Fund expenditures by departments categories as well as fund balance for all funds, and review the American Rescue Plan Act (ARPA) fund with its many project subcategories.

Water

With \$2M in expected revenue against \$1.7M in planned expenditures (\$1.4 operational plus \$343k in capital investment and debt service), the proposed water fund budget is balanced and the fund balance is strengthened by \$353k for future emergencies and improvement project needs. Rates were adjusted by the Consumer Price Index (CPI) in January.

The major capital water projects are increasing production capacity by construction of two new wells, increasing storage capacity by construction of a million-gallon ground-mounted storage tank, and extension of water into County areas to offer connection to 180 or more residential properties with dry or at-risk domestic wells. Meanwhile, we are constructing SCADA controls into our water operations and migrating from MOMS to Tyler Technologies for billing.

As a reminder, storm drainage system maintenance expenses are charged to the water fund, as allowed by State law as most of Orland's storm drainage runoff is detained and eventually percolates as recharge to groundwater storage.

Sewer

With \$1.4M in expected revenue against \$980M in planned expenditures (\$829k in operational plus \$150k in capital investment and debt service), the primary sewer budget is balanced and \$432k is added to the fund balance for future emergencies and improvement projects. Completing the refurbishing of blue frog aerators, continuing to implement SCADA into our system and improving lift station equipment will be areas of capital improvement focus for the coming year.

For both water and sewer, revenue from connection charges is now going to respective categories of development impact fees funds (DIF) for use in future capital maintenance and improvement projects.

The industrial sewer fund, which served two producers of agricultural process brine effluent, is separate from the primary sewer system physically and financially. These ponds are currently not receiving wastewater and thus no revenue is projected. The industrial sewer budget is balanced and maintains a modest reserve against future capital needs. This system is currently under engineering review for future utilization and replacement.

Gas Tax Street Funds

These funds from various State sources are aggregated to show fund balance, revenue and expenditures this fiscal year, revenue and expenditures projected for FY 25, and projected fund balance at the end of FY25. Major projects here include reconstruction of Shasta Street and M½. This fund also provides for ongoing street surface maintenance, a portion of capital equipment related to street maintenance, and an update to the Street Master Plan which will be based on our Pavement Management Index report. Public Works and Engineering labor is allocated to the General Fund Streets account.

Development Impact Fees

These fees are collected from developers, normally at the time of permit issuance, to help offset the future cost of capital improvements to the extent they are impacted by new growth, both residential and commercial. The fees are based on a consultant's fee study report, then adopted by the City Council and adjusted annually per CPI. The report shows a summary of revenue and expenditure totals so far this fiscal year, as of March 31, with balances for each account. There are additional project costs to be assigned during the balance of this fiscal year, which will become part of a final post-budget report and comprehensive audit report after year-end close-out.

Debt Schedule

Having paid off the ladder truck, various OPW equipment, the wastewater treatment pond aerators, and the 5th St parking lot, the debt load reduction is significant. Remaining debt represents a well loan at zero interest, long-term investments in solar/energy efficiency projects and refinancing of the "unfunded" pension

liability via pension obligation bonds (POB). This is the third full year of the \$4M pension obligation refinancing. We have no loans at rates exceeding 3% interest.

Attachments (6):

1. Revised Public Safety Fund Budget and Fleet Schedules FY25
2. Water Fund Budget FY25
3. Sewer Fund Budget FY25
4. Gas Tax Street Funds Budget FY25
5. DIF schedule as of March 31, 2024
6. Debt Obligations Schedule FY 25

RECOMMENDATION

Provide direction at Council discretion. Staff will proceed with budget preparation accordingly.

Fiscal Impact of Recommendation:

Budget will approximately balance revenues with expenditures as it provides for operational and improvement project objectives, and is designed to maintain or build fund reserves.