Budget Adoption for FY 2020-2022 and Implementation of Rates

June 2020
Process Timing

- **Prop 218 Approved Rates**
  - 5 years - July 2019

- **Adopt FY20-22 Two Year Budget**
  - Considered now with administrative rate implementation

- **Mid-Cycle Budget Review With Board**
  - Considered in Summer 2021 with Water administrative rate setting
Budgeting Overview: What is a budget?

- Process designed to help decision makers make informed choices about the provision of services and capital assets.
- Road Map for a fiscal year (or more) that authorizes spending for an agency.
- Includes breakdown of different funds and departments, and different revenue and spending classifications.
- Centerpiece of a thoughtful, ongoing process involving projections and assumptions, known factors, identification of spending needs, legal restrictions, and balance for future uncertainty.
Budgeting Overview

What isn’t a budget intended for?

- Directly tied to Water and Sewer Rates
  - Rates = long term outlook (actuals + forecasts)

- Serve as a discretionary process for all funding
  - Most funding has restrictions

- Be a summation of all requests
  - Proposal includes vetted requests for appropriateness within revenue and fund balance realities
Budgeting Overview
Why a 2-year Budget?

- Improved long-term financial planning
- Greater emphasis on management and service delivery
- Link operating and capital activities and spending
- Reduction in staff time for budget development (year 2)
Budget Enhancements - Informational “Cut Sheets”

- Improved financial and operational transparency
- Informative tool on programs and services
- Includes department purpose, goals/objectives, and revenues
- Help tell RMWD’s story
Budgeting Highlights

**Aging Infrastructure**
- Addressing deferred maintenance (Capital Assets)
- Carryover + 1 Time Major Projects

**Fund Balance Investment**
- PAYGO = Cost Avoidance
- Utilize 29% or $12.8M of Fund Balance

**Maintain Adequate Minimum Reserves**
- 10-year Economic Cycle
- Future Uncertainties
Budget Process
Discretionary vs Restricted Revenues

Discretionary

• Property Tax (17%)
• Lease income (cell tower sites - <1%)

Restricted (82%)

• Water rate charges
• Sewer EDU and availability charges
• Fire EDU charges
• Ambulance Fees
• Water and sewer mitigation fees
Budgeting Process
Overview of budgeted revenues

Revenues from rates and charges

- Water and pumping charges
- Sewer service charges
- Fire EDU charges
- Other revenues

Property tax revenue

- About 3.3% of San Diego County property taxes go to special districts

FY20/21 FY21/22
$29.0 Million $29.7 Million

FY20/21 FY21/22
$6.1 Million $6.1 Million
Budgeting Process
Property Tax Allocation in San Diego, FY 2019-20

1% PROPERTY TAX ALLOCATION OF
FY 2019-2020 RECEIVABLE

TOTAL REVENUE $5,562,032,550

- Schools 45.2%
- Library 0.7%
- County 13.1%
- County In Lieu of Vehicle License Fee (VLF) 7.9%
- Special Districts 3.3%
- Cities 12.6%
- Enhanced Infrastructure Finance District (EIFD) 11.9%
- Redevelopment Property Tax Trust Fund (RPTTF) 0.0%

\[1\] Represents the exchange of Property Tax for Cities and County Vehicle License Fees as authorized under Senate Bill 1096, chaptered August 5, 2004.
\[2\] Revenue for Schools has been reduced by the ERAF deficit as authorized under Senate Bill 1096, chaptered August 5, 2004.
\[3\] Effective February 1, 2012, Redevelopment Agencies were dissolved and related revenue is allocated to Redevelopment Successor Agencies, County, Schools, Cities, Special Districts, and the State Controller's Office as provided by Health & Safety Code, Division 24, Part 1.85.

\[4\] EIFD revenue is less than 0.1% of the total revenue.
Allocation of Property Taxes for FY 2020-21

- Water CRP (Fund 11): $2,300,000
- Fire Ops (Fund 02): $2,050,000
- Water Operations (Fund 01): $400,000
- SM CRP (Fund 25): $400,000
- Water Debt (Fund 54): $375,000
- SV CRP (Fund 22): $200,000
- General Fund (Fund 06): $200,000
- Water CRP Energy (Fund 10): $100,000
- Fire CRP (Fund 12): $100,000

Total: $6,125,000
Allocation of Property Taxes for FY 2021-22

<table>
<thead>
<tr>
<th>Fund</th>
<th>Allocation</th>
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<tr>
<td>Fire Ops (Fund 02)</td>
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<td>Water CRP (Fund 11)</td>
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<td>Water Operations (Fund 01)</td>
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<td>SV CRP (Fund 22)</td>
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<tr>
<td>Water Debt (Fund 51)</td>
<td>$375,000</td>
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<tr>
<td>SM CRP (Fund 25)</td>
<td>$200,000</td>
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<tr>
<td>General Fund (Fund 06)</td>
<td>$200,000</td>
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<tr>
<td>Fire CIP (Fund 12)</td>
<td>$200,000</td>
</tr>
<tr>
<td>Water CRP Energy (Fund 10)</td>
<td>$100,000</td>
</tr>
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Total Allocation: $6,125,000
General Managers Direction: Hold the line!

- No new positions
- No new vehicles
  - Replacement with sufficient justification
- 3% increase only for all non-mandated costs
- Updated facilities plans to reflect completed and updated projects
- 2-Year Budget
Budget Process
Discretionary vs Mandatory Expenditures

<table>
<thead>
<tr>
<th>Mandatory/Pre-Determined</th>
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</thead>
<tbody>
<tr>
<td>Personnel Costs (MOU + Pension costs)</td>
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</tbody>
</table>

Remaining Funding
Calculate available funding for all non-mandated items

Discretionary
Deferred Maintenance | Level of Service
Trend: Personnel & Water Accounts

- **Authorized Positions**
- **Number of Water Accounts**

Years:
- 1992-93: 8,000
- 2008-09: 8,000
- 2009-10: 54
- 2010-11: 54
- 2011-12: 54
- 2012-13: 49
- 2013-14: 48
- 2014-15: 48
- 2015-16: 48
- 2016-17: 48
- 2017-18: 48
- 2018-19: 48
- 2019-20: 48
- 2020-21: 48
- 2021-22: 48

- 1992-93: 73
- 2008-09: 59
- 2009-10: 9,500
- 2010-11: 9,500
- 2011-12: 9,500
- 2012-13: 9,500
- 2013-14: 9,550
- 2014-15: 9,600
- 2015-16: 9,635
- 2016-17: 9,635
- 2017-18: 9,645
- 2018-19: 9,654
- 2019-20: 9,700
- 2020-21: 9,800
- 2021-22: 9,850

Graph shows a steady increase in both personnel and water accounts from 1992-93 to 2021-22.
The Public Budgeting Process
The Color of Money

- Fund Accounting
  - Operating Funds
    - 01 - Water
    - 02 - Fire
    - 03 - Parks
    - 04/05 - Wastewater (San Vicente, Santa Maria)
    - 06 - General

- Capital Improvement & Capital Replacement Funds
  - 10/11/22/25 - Capital Replacement
  - 12/14/15/26/43 - Capital Improvement

- Other Funds
  - 51 - Investments & Loans (debts service)
  - 24 - Fire Mitigation
Total Expenditures by Type - FY20/21
$46,747,038

- Operations and Maintenance, $25,192,626, 54%
- Personnel, $8,154,560, 17%
- Equipment/Debt Service/Uses of funds, $715,125, 2%
- Principal, $283,000, 1%
- Interest, $95,518, 0%
- Capital Projects, $12,306,208, 26%
Total Operations Expenditures- FY20/21
$33,393,686

- Santa Maria Sanitation Fund, $4,166,637, 13%
- Water Fund, $18,164,467, 54%
- Fire Fund, $7,431,396, 22%
- Parks Fund, $180,000, 1%
- San Vicente Sanitation Fund, $3,001,187, 9%
- General Fund, $449,999, 1%
Total Expenditures by Type - FY21/22

$42,925,256

- Operations and Maintenance, $26,034,678, 61%
- Personnel, $8,647,930, 20%
- Capital Projects, $7,502,208, 17%
- Interest, $86,721, 0%
- Principal, $292,000, 1%
- Equipment/Debt Service/Uses of funds, $361,719, 1%
Total Operations Expenditures - FY21/22
$34,679,103

- Santa Maria Sanitation Fund, $4,283,558, 12%
- Water Fund, $18,950,280, 55%
- Fire Fund, $7,775,786, 23%
- Parks Fund, $130,000, 0%
- San Vicente Sanitation Fund, $3,089,485, 9%
- General Fund, $449,994, 1%
Proposed Budget for FY 2020-21
Water Fund Revenue - Fund 01

- Largest of RMWD’s operating funds
- Total Revenues at $17.6M
- Water Sales are down: make up majority of 4% decrease
- Sales projected based on trend in demand + forecast + blend of treated and untreated purchases
- Minimum Fund Balance target identified in Water Rate study achieved
Proposed Budget for FY 2020-22
Water Sales Trend - Fund 01

- AF Water Sales Treated
- AF Water Sales Untreated

Projected
Proposed budget for FY 2020-21: total budget of $18.2 million -

Two primary reasons for decrease:

1. Water Sale decreases drive decrease volume of more expensive water
   - Lower volume purchases to keep up with changing demand (revenue decreases are mostly offsetting)
   - Increased costs to purchase from County Water Authority

2. Capital Transfers
   - Investments in repairing and replacing aging infrastructure ($1.1M)
Proposed Budget for FY 21-22
Water Fund Revenue - Fund 01

Water Sales recover slightly from FY20/21 levels

Sales projected based on trend in demand + forecast + blend of treated and untreated purchases

Minimum Fund Balance Reserve target identified in Water Rate study achieved (barely)

Re-evaluate FY21/22 Water Rates during budget review summer 2021
Proposed budget for FY 2021-22: total budget of $19.0 million

Two primary reasons for change:

1. Water Sale increase slightly to drive increase in purchase costs
   - Higher volume of treated purchases to keep up with demand - no untreated purchases
   - Increased costs to purchase from County Water Authority

2. Capital Transfers
   - Reduced from $1.1M to $1.0M
Proposed Budget for FY 20-21
Fire Funds

Operations (Fund 02)

- Second largest of RMWD’s operating funds
- CalFire budget amount for FY 2019/20 is $6,427,815
- FY 2020-21 budget of $6,725,796
- Allocation of property tax funding of $2.05M
- State furlough may have savings effect for Fund/Department

Fire Capital (Fund 12)

- $267K budgeted
- New ambulance payment ($72K), new engine payment ($66K), 1 new ambulance (replacement $61K), power cot ($15k) and several smaller items
- Allocation of property tax funding of $100K
Proposed Budget for FY 21-22
Fire Funds

Operations (Fund 02)

- CalFire budget $7,062,086 based on ~5% annual trend in increased costs
- Allocation of property tax funding of $2.45M
- State furlough may also have savings effect for Fund/Department

Fire Capital (Fund 12)

- $193K budgeted
- New engine payment ($66K) and Ambulance Payment ($61K) and re-chassis of 1 ambulance ($38k), and some small projects
- Allocation of property tax funding of $200K
Proposed Budget for FY 20-22
Fire Mitigation

**FY20/21**
- Fire Station 80 remodel needed to accommodate additional staff the Board approved
- $140K included to accomplish remodel (carryover)
- $32K to pay for growth portion of new engine lease (year 3 of 6)
- Revenues decreasing as building decreases

**FY21/22**
- $32K to pay for growth portion of new engine lease (year 4 of 6) and $40k to complete Station remodel
- Fund balance remains healthy
Proposed Budget for FY 20-21
Operating Funds for Sewer

San Vicente (Fund 04)

- Total budget of $3.0 million for upcoming FY 2020-21
- Slight revenue decrease due to decreased tertiary water sales
- Flat Expenditures + continued $500K transfer to San Vicente Capital Replacement Fund 22
- Expenses reduced slightly due to lower collections costs

Santa Maria (Fund 05)

- Total budget of $4.2 million for upcoming FY 2020-21
- Small revenue increase due to increase in rate revenue
- Expenditures flat + decrease to $1.25M in transfers to Santa Maria Capital Replacement Fund 25
- Expenses reduced slightly due to lower collections costs
Proposed Budget for FY 21-22
Operating Funds for Sewer

San Vicente (Fund 04)

- Total budget of $3.1 million for upcoming FY 21-22
- Slight revenue increase tied to rate revenue increase
- Flat Expenditures + continued $500K transfer to San Vicente Capital Replacement Fund 22

Santa Maria (Fund 05)

- Total budget of $4.3 million for upcoming FY 2021-22
- Slight revenue increase tied to rate revenue increase
- Expenditures slight increase + flat $1.25M in transfers to Santa Maria Capital Replacement Fund 25
Proposed Budget for FY 20-22
General Fund

FY20/21

- Operations (Fund 06)
  - Total budget of $4.5 million for FY 2020-21
  - Revenues: Property Tax $200k, Fees $250K
  - Expenditures: 6.2% increase - Primarily Personnel Costs
- Capital (Fund 26)
  - Total Budget of $225K - completion of multi-year IT projects/building renovation

FY21/22

- Operations (Fund 06)
  - Total budget of $4.7 million for FY 2021-22
  - Revenues: Property Tax $200k, Fees $250K
  - Expenditures: 3.6% increase - Primarily Personnel Costs
- Capital (Fund 26)
  - Total Budget of $95k - primarily complete ongoing projects
Proposed Budget for FY20-22
Water Capital Replacement Projects - Fund 11

FY20/21

• Revenue: $3.4M ($2.3M Property Tax)
• Transfer in from Water Operations Fund 01 of $1.1M
• Expenditures: $4.0M in water system infrastructure projects
  • Planned projects include infrastructure replacement, Poway Pump Station
    Natural Gas low-flow natural gas engine, one vehicle replacement (lease),
    valve replacement and meter replacements

FY21/22

• Revenue: $2.8M (Property Tax $1.8M)
• Transfer in from Water Operations Fund 01 to $1.0M
• Expenditures: $2.8M in water system infrastructure projects.
  • Planned projects include infrastructure replacement, two vehicle
    replacements (+lease payment), and meter replacement
Proposed Budget for FY 20-22
Water Capital Improvement Projects - Fund 43

FY20/21
- Revenue: $165K
  - Slight Increase in connection fees
- Expenditures: $535K
  - Planned projects include Arc Flash Study (unfunded mandate), Pump Station MCC rehab, fence repair, Ops Yard equipment cover, and Pressure Reduction Valve (PRV).

FY21/22
- Revenue: $165K
- Expenditures: $695K in water system infrastructure projects.
  - Planned projects include Dam Slide Gate Control Panel (carryover) and Pressure Reduction Valve (PRV).
Proposed Budget for FY 20-22
San Vicente Capital Replacement Projects - Fund 22

FY20/21

- Revenues: $220K (Property Tax)
- Transfers reduced to $500K from San Vicente Operations Fund 04
- Expenditures: $736K
  - Projects include collections system infrastructure, two vehicle replacements (lease 1), collections system inflow and infiltration (I&I), and grit removal system work.

FY21/22

- Revenues: $420K
- Transfers static at $500K from San Vicente Operations Fund 04
- Expenditures: $1.5M
  - Projects include collections system infrastructure (Rio Verde Pipeline Replacement), grit removal system completion, collection system I&I, and RO membranes
Proposed Budget for FY 20-22
Santa Maria Capital Replacement Projects - Fund 25

**FY20/21**

- Revenues: $430K (Property Tax)
- Transfers: $1.25M - investment in aging infrastructure
- Expenditures: $6.8M
  - Projects include completion of effluent transmission pipeline, 50% completion for influent pump station/grit removal, collections system infrastructure, collection system I&I, two vehicle replacements (1 lease), and lift station rehab.

**FY21/22**

- Revenues: $210K (Property Tax)
- Transfers: $1.25M
- Expenditures: $2.9M
  - Projects include 100% completion for influent pump station/grit removal, collections system infrastructure, and sewer lift station rehab.
Fund 51 - Water Debt Service
San Vicente Road Realignment

Relocation of 2.25 miles of San Vicente Road to improve safety

State law in 1973 allowed the installation of RMWD facilities within County right of way - RMWD required to pay to relocate the facilities when improvements were made

The impacts to RMWD:

- Sole reliable source of water into San Vicente valley (including the San Diego Country Estates) was relocated
- 6,040 feet of pipelines
- Cost of almost $5 million to relocate pipelines (~$3.9M debt remaining)
- FY20/21 and FY21/22 Budget includes $375K each in Property Tax revenue to pay annual debt services and maintain reserves
Sewer Rates - FY20/21 and FY21/22

- Rate Recommendations Match Prop 218 Approved Rates
  - 2.0% Annually in Santa Maria
  - 1.5% Annually in San Vicente

- Average monthly customer impact of recommended rates:

<table>
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<tr>
<th>Service Area</th>
<th>Current Annual Charge</th>
<th>Proposed Annual Sewer Service Charges</th>
<th>Monthly Change</th>
<th>Effective Date</th>
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<td>Monthly Change</td>
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Water Rates - Less than Prop 218 Approved?

- Less than 7% Prop 218 Approved Annual increase due to:
  - Rate Suppression effect
    - Selling water in inventory = water purchase cost avoidance (temporary)
    - Lower Lake Ramona = reduced water evaporation costs (ongoing)
    - Additional Property Tax Allocation = supplemental revenue (temporary)
  - Rate Growth effect
    - Selling less water than forecasted = spreading fixed costs over less units of water sold (possibly “new normal”)
Water Rates - FY20/21

- Recommended 6.5% Rate increase for FY20/21
- Come back for mid-budget review for FY21/22 rates = high variability of water conditions
- Average monthly residential customer impact of recommended + approved pumping rates (10 units treated water ¾” meter)

<table>
<thead>
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<th></th>
<th>Current</th>
<th>Proposed</th>
<th>Difference</th>
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<td>Fixed</td>
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<td>$36.12</td>
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<tr>
<td>Variable Commodity</td>
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<td>Total</td>
<td>$106.22</td>
<td>$112.38</td>
<td>$6.16</td>
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Water Rates - FY20/21

- How did we get here?
Next Steps

1. Following adoption, staff will upload and implement the budget
2. Implement approved rates beginning July 2020
3. Continue with monthly financial reporting to the Board
4. Mid-Budget cycle review with Board in Summer 2021 with Water rate review
End of Presentation