

# Mayor and Council Communication

**DATE:** 06/25/24

**M&C FILE NUMBER:** M&C 24-0600

**LOG NAME:** 60FY24BUDGETADJUSTMENT

## **SUBJECT**

(ALL) Adopt Appropriation Ordinances Enacting Fiscal Year 2024 Budget Adjustments in the Water and Sewer Fund in the Total Amount of \$74,200,000.00 by Allocating Higher than Anticipated Projected Revenues and Interest Earnings to Offset Anticipated Operating Shortfalls and Fund Departmental Capital Outlays and Capital Projects and Amend the Fiscal Year 2024 Adopted Budget and to Effect a Portion of Water's Contribution to the Fiscal Years 2024-2028 Capital Improvement Program

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## **RECOMMENDATION:**

It is recommended that the City Council:

1. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water & Sewer Fund in the amount of \$40,200,000.00, from anticipated projected revenues, for the purpose of funding (1) increased operating expenses in the amount of \$15,175,000.00, and (2) transfers to Water & Sewer Capital Projects Fund for the purpose of funding the Utility's pay-as-you-go capital program in the amount of \$25,025,000.00;
  2. Adopt the attached appropriation ordinance adjusting estimated receipts and appropriations in the Water & Sewer Fund by increasing estimated receipts and appropriations in the Transfer to Water/Sewer account in the amount of \$34,000,000.00 and decreasing estimated receipts and appropriations in the Debt Transfer Out – Principal account by the same amount;
  3. Adopt the attached appropriation ordinance in the Water Prior Lien Debt Service Fund by increasing the use of net position generated from prior year interest earnings in the amount of \$25,996,664.00 and reducing the transfer from the Water & Sewer Fund by \$34,000,000.00 and contribution to net position by \$8,003,336.00;
  4. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water Capital Projects Fund in the amount of \$175,000.00 transferred from available funds in the Water and Sewer Fund for the purpose of funding the Water and Sewer Outlay programmable (City Project No. P00087) and to Effect a Portion of Water's Contribution to the Fiscal Years 2024-2028 Capital Improvement Program; and
  5. Amend the Fiscal Year 2024 Adopted Budget.
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## **DISCUSSION:**

The purpose of this Mayor and Council Communication (M&C) is to recognize additional Water & Sewer revenue projected to be received by the Utility due to higher than usual water usage revenues associated with increased demand. Temperatures in the fall and winter months resulted in record water usage for the months of October through March. Receipts and appropriations in the Water & Sewer Fund will be increased to be used for operating costs affected by rising costs, as well as supplementing the Utility's pay-as-you-go capital program. In addition, this M&C takes actions to declare surplus funds from interest earnings in the Water Prior Lien Debt service fund by reallocating Water & Sewer Fund transfers from the Water Prior Lien Debt Service Fund to the Water & Sewer Capital projects fund for the purpose of funding the Utility's pay-as-you-go capital program.

Per Ordinance No. 26453-09-2023 Section 4, the Fiscal Year (FY) 2024 adopted budget for the Water and Sewer Fund was \$574,843,877.00. After the Refunding of Bond Series 2023A, M&C 23-0799, the amended budget was \$575,265,097.17. This M&C recommends an additional \$40,200,000.00 in revenue appropriations for FY2024, from anticipated projected revenues, for an adjusted budget of \$615,465,097.17.

Expenditure appropriations in the General Operating and Maintenance accounts will increase by \$15,175,000.00. Inflationary factors have increased the costs of commercial meters, chemicals and fuel; and electricity costs have increased due to increased demand on our system. These issues are causing large projected overruns to the FY2024 budget. These same inflationary costs and supply chain issues, such as the cost of pipe and electrical materials, are impacting the costs of debt-funded capital projects and the pay-as-you-go program as well. Consequently, the Transfer appropriations will increase by \$25,025,000.00 to allow the Utility to address these rising costs. The Utility will also fund three additional vehicles (for safety and inspection of capital projects) and one piece of heavy equipment (for warehouse use).

To balance these increases in expenditures, revenue appropriations will also increase by \$40,200,000.00. Due to increased demand, retail service revenue is expected to exceed projections, helping to offset the aforementioned rising costs.

The City's Water Prior Lien Debt Service Fund generates interest income by prudently investing idle cash from operations, "pay as you go" capital funds, and bond funds in strict compliance with state law and City policy. The current practice is to allocate interest income from Water enterprise activities to the City's Water Prior Lien Debt Service Fund to offset interest cost associated with outstanding debt issuances and to accumulate cash which can be used to pay off debt prior to maturity to achieve debt service savings. The City has benefited tremendously from the current elevated interest rate environment, resulting in better-than-expected interest earnings due to a dramatic increase in the Federal Funds rate from a range of 0.01% to 0.25% to over 5%.

As a result, City staff has identified approximately \$34,000,000.00 of excess funds above the minimum reserve requirement in the City's Water Prior Lien Debt Service Fund. Staff recommends for City Council to declare this surplus of interest income receipts, by reducing current year debt

service transfers from the Water & Sewer Fund to the Water Prior Lien Debt Service Fund. At the same time, authorize the transfer from the Water & Sewer Fund (56001) to the Water & Sewer Capital Projects Fund (56002), in the same amount, for the purpose of funding the Utility's pay-as-you-go capital program.

Going forward, staff will monitor collection of investment income from utility operations to identify any surplus that can be used for other lawful purposes. Given the variable nature of investment income, any surplus may fund one-time initiatives, capital projects, or to accumulate cash which can be used to pay off debt prior to maturity to achieve debt service savings.

The actions in this M&C will amend the FY2024 Adopted Budget as approved in connection with Ordinance 26453-09-2023 Section 4. Enterprise Funds, as listed on page 20.

Water and Sewer Operating Fund:

Fund/Department Budget Category	FY2024 Adopted Budget	Authority	Budget Adjustment	Revised FY2024 Budget
Revenues				
License and Permits	\$1,646,940.00			\$1,646,940.00
Charges for Services	\$524,426,085.00			\$524,426,085.00
		This M&C	\$40,200,000.00	\$40,200,000.00
Use of Money and Property	\$2,296,386.00			\$2,296,386.00
Other Revenue	\$12,515,000.00	M&C 23-0799	\$421,220.00	\$12,936,220.00
Sale of Capital Asset	\$100,000.00			\$100,000.00
Salvage Sales	\$30,000.00			\$30,000.00
Transfer from Water Impact	\$14,584,082.00			\$14,584,082.00
Transfer from Sewer Impact	\$15,697,815.00			\$15,697,815.00
Transfer from Environ Protection Fund	\$576,756.00			\$576,756.00
Transfer from Stormwater Utility Fund	\$1,418,235.00			\$1,418,235.00
Transfer from Solid Waste Fund	\$1,552,578.00			\$1,552,578.00
Total Revenues	\$574,843,877.00		\$40,621,220.00	\$615,465,097.00

<b>Expenditures</b>				
Water	\$216,220,428.00	M&C 23-0799	\$210,610.00	\$216,431,038.00
		This M&C	\$5,000,000.00	\$5,000,000.00
Reclaimed Water	\$132,641.00	This M&C	\$175,000.00	\$307,641.00
Wastewater	\$121,297,960.00	M&C 23-0799	\$210,610.00	\$121,508,570.00
		This M&C	\$10,000,000.00	\$10,000,000.00
Transfer to Water Capital Fund	\$4,156,000.00	This M&C	\$175,000.00	\$4,331,000.00
Transfer to General Fund to Energy Savings Program	\$27,116.00			\$27,116.00
Transfer to Dev Services for Positions	\$1,060,221.00			\$1,060,221.00
Transfer to Financial Management Services for Purchasing Positions	\$345,088.00			\$345,088.00
Transfer to Water and Sewer Capital Fund	\$84,505,035.00	This M&C	\$58,825,000.00	\$143,330,035.00
Payment in Lieu of Taxes	\$5,737,866.00			\$5,737,866.00
Street Rental	\$26,313,324.00	This M&C	\$25,000.00	\$26,338,324.00
Transfer to Water Debt Funds	\$114,865,880.00	This M&C	(\$34,000,000.00)	\$80,865,880.00
Transfer to IT Refresh Capital	\$182,318.00			\$182,318.00
<b>Total Expenditures</b>	<b>\$574,843,877.00</b>		<b>\$40,621,220.00</b>	<b>\$615,465,097.00</b>

**Water Priority Lien Debt Service Fund:**

Fund/Department Budget Category	FY2024 Adopted Budget	Authority	Budget Adjustment	Revised FY2024 Budget
Revenues				
Proceeds from WSS Rev Ref 2023A	\$83,320,676			\$83,320,676
Transfer from Water & Sewer	\$114,865,880	This M&C	(\$34,000,000)	\$80,865,880
Use of Net Position		This M&C	\$25,996,664	\$25,996,664
<b>Total Revenues</b>	<b>\$198,186,556</b>		<b>(\$8,003,336)</b>	<b>\$190,183,220</b>
Expenditures				
Financial Management Services (Debt Obligation)	\$190,183,220			\$190,183,220
Contribution to Fund Balance/Net Position	\$8,003,336	This M&C	(\$8,003,336)	\$0
<b>Total Expenditures</b>	<b>\$198,186,556</b>		<b>(\$8,003,336)</b>	<b>\$190,183,220</b>

**Water & Sewer Capital Project Fund** *(recommendation 4)*

The FY2024 adopted budget for the Water and Sewer Capital Project Fund in the programmable Capital Outlay project (P00087) was \$4,156,000.00. This M&C recommends an additional \$175,000.00, from newly recognized revenues, in appropriations for FY2024, for an adjusted budget of \$4,331,000.00.

Capital Fund Name	Project Name	FY2024 CIP Appropriations	Authority	Budget Changes (Increase/Decrease)	Revised FY2024 Budget
Water & Sewer Capital Projects - Fund 56002	P00087 - Water & Sewer Outlay		M&C 23- 0869	\$4,156,000.00	\$4,156,000.00
				\$175,000.00	\$175,000.00
<b>Total</b>				<b>\$4,331,000.00</b>	<b>\$4,331,000.00</b>

This project is located in ALL COUNCIL DISTRICTS.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

**FISCAL INFORMATION / CERTIFICATION:**

The Director of Finance certifies that upon the approval of the above recommendations and adoption of the attached ordinances, funds will be available in the Fiscal Year 2024 operating budget, as appropriated, in the Water & Sewer Fund and the Water Prior Lien Debt Service Fund and in the W&S Capital Projects Fund for the Water and Sewer Outlay programmable project. Prior to any expenditure being incurred, the Water Department has the responsibility to validate the availability of funds.

**Submitted for City Manager's Office by:** Fernando Costa 6122

**Originating Business Unit Head:** Chris Harder 5020

**Additional Information Contact:** Sarath Padar 8407

