

# Mayor and Council Communication

**DATE:** 05/13/25

**M&C FILE NUMBER:** M&C 25-0418

**LOG NAME:** 60FY25BUDGETADJUSTMENT

## **SUBJECT**

(ALL) Adopt Appropriation Ordinances Enacting Fiscal Year 2025 Budget Adjustments in the Water and Sewer Fund in the Total Amount of \$76,860,425.00 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 2025 Adopted Budget and to Effect a Portion of Water's Contribution to the Fiscal Years 2025-2029 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 \$40,000,000.00, from anticipated projected revenues, for the purpose of funding (1) increased operating expenses in the amount of \$14,800,000.00, (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 \$22,000,000.00, and (3) transfers to the Water & Sewer Capital Projects Fund for the purpose of funding the capital intrafund transfer out account in the amount of \$3,200,000.00;
  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 \$36,860,425.00 and decreasing estimated receipts and appropriations in the Debt Transfer Out – Principal account by the same amount;
  3. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations 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 \$24,539,297.00 and decreasing the transfer from the Water & Sewer Fund by \$36,860,425.00 and contribution to net position by \$12,321,128.00;
  4. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water & Sewer Capital Projects Fund in the amount of \$3,200,000.00, from available funds in the Capital Intrafund Transfer Out account within the Water & Sewer Fund, for the purpose of funding the Water and Sewer Outlay programmable project (City Project No. P00087); and
  5. Amend the Fiscal Year 2025 Adopted Budget and the 2025-2029 Capital Improvement Program.
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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 months resulted in higher than expected water usage for the months of October through December. Receipts and appropriations in the Water & Sewer Fund will be increased by \$40,000,000.00 to be used for operating costs affected by rising costs, increased water demand, 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 Debt Transfer Out-Principal account to the Transfer to Water/Sewer account for the purpose of funding the Utility's pay-as-you-go capital program.

Per Ordinance No. 27107-09-2024 Section 4, the Fiscal Year (FY) 2025 adopted budget for the Water and Sewer Fund was \$616,963,098.00. The adopted budget was subsequently adjusted in the amount of \$300,000.00 via M&C 24-0872 and in the amount of \$245,500.00 via M&C 25-0156 for an adjusted budget of \$617,508,598.00. This M&C recommends an additional \$40,000,000.00 in revenue appropriations for FY2025, from anticipated projected revenues, for an adjusted budget of \$657,508,598.00.

Expenditure appropriations in the General Operating and Maintenance accounts will increase by \$14,800,000.00. Operational costs due to the transition of the management of the biosolids program from a contractor to in-house staff, as well as a settlement with the vendor (M&C 25-0281), are driving an expected budget overrun to the FY2025 budget. Additionally, 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 \$25,200,000.00 to allow the Utility to address these rising costs. The Utility will also fund equipment purchases such as valves, drives, pumps and compressors in FY2025 and two additional vehicles for use during safety inspections and field operations.

To balance these increases in expenditures, revenue appropriations will also increase by \$40,000,000.00. Due to increased demand, wholesale and retail revenues are 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 higher than normal Federal Funds rates.

As a result, City staff has identified approximately \$36,860,425.00 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. By decreasing the transfers for debt, this allows the reallocation of the funds to the Transfers to Water/Sewer account by the same amount for the purpose of funding the Utility’s pay-as-you-go capital program.

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 FY2025 Adopted Budget as approved in connection with Ordinance 27107-09-2024 Section 4, Enterprise Funds, as listed on page 22.

**Water and Sewer Operating Fund:**

<b>Fund/Department Budget Category</b>	<b>FY2025 Adopted Budget</b>	<b>Authority</b>	<b>Budget Adjustment</b>	<b>Revised FY2025 Budget</b>
Revenues				
License and Permits	\$1,910,000.00			\$1,910,000.00
Charges for Services	\$562,502,751.00	M&C 25-0156	\$245,500.00	\$562,748,251.00
		This M&C	\$40,000,000.00	\$40,000,000.00
Use of Money and Property	\$2,596,386.00			\$2,596,386.00
Other Revenue	\$13,765,000.00			\$13,765,000.00
Sale of Capital Asset	\$100,000.00			\$100,000.00
Salvage Sales	\$30,000.00			\$30,000.00
Transfer from Water Impact	\$13,865,588.00			\$13,865,588.00
Transfer from Sewer Impact	\$18,143,557.00			\$18,143,557.00
Transfer from Environ Protection Fund	\$756,690.00			\$756,690.00
Transfer from Stormwater Utility Fund	\$1,562,024.00			\$1,562,024.00
Transfer from Solid Waste Fund	\$1,731,102.00			\$1,731,102.00
Use of Net Position		M&C 24-0872	\$300,000.00	\$300,000.00

<b>Total Revenues</b>	<b>\$616,963,098.00</b>		<b>\$40,545,500.00</b>	<b>\$657,508,598.00</b>
Expenditures				
Water	\$229,115,919.00	M&C 24-0872	\$300,000.00	\$229,415,919.00
		M&C 25-0156	\$122,750.00	\$122,750.00
Reclaimed Water	\$211,659.00			\$211,659.00
Wastewater	\$129,555,320.00	This M&C	\$14,800,000.00	\$144,355,320.00
		M&C 25-0156	\$122,750.00	\$122,750.00
Transfer to Water Capital Fund	\$7,796,463.00	This M&C	\$3,200,000.00	\$10,996,463.00
Transfer to General Fund to Energy Savings Program	\$27,005.00			\$27,005.00
Transfer to HR for Positions	\$1,738,600.00			\$1,738,600.00
Transfer for Parking	\$218,105.00			\$218,105.00
Transfer to Water and Sewer Capital Fund	\$92,597,771.00	This M&C	\$58,860,425.00	\$151,458,196.00
Payment in Lieu of Taxes	\$6,098,464.00			\$6,098,464.00
Street Rental	\$28,755,154.00			\$28,755,154.00
Transfer to Water Debt Funds	\$120,666,320.00	This M&C	(\$36,860,425.00)	\$83,805,895.00
Transfer to IT Refresh Capital	\$182,318.00			\$182,318.00
<b>Total Expenditures</b>	<b>\$616,963,098.00</b>		<b>\$40,545,500.00</b>	<b>\$657,508,598.00</b>

**Water Priority Lien Debt Service Fund:**

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<b>Fund/Department Budget Category</b>	<b>FY2025 Adopted Budget</b>	<b>Authority</b>	<b>Budget Adjustment</b>	<b>Revised FY2025 Budget</b>
Revenues				
Transfer from Water & Sewer	\$120,666,32.00	This M&C	(\$36,860,425.00)	\$83,805,895.00
Use of Net Position		This M&C	\$24,539,297.00	\$24,539,297.00
<b>Total Revenues</b>	<b>\$120,666,320.00</b>		<b>(\$12,321,128.00)</b>	<b>\$108,345,192.00</b>
Expenditures				
Financial Management Services (Debt Obligation)	\$108,345,192.00			\$108,345,192.00
Contribution to Fund Balance/Net Position	\$12,321,128.00	This M&C	(\$12,321,128.00)	\$0.00
<b>Total Expenditures</b>	<b>\$120,666,320.00</b>		<b>(\$12,321,128.00)</b>	<b>\$108,345,192.00</b>

#### **Water & Sewer Capital Project Fund**

The FY2025 adopted budget for the Water and Sewer Capital Project Fund in the programmable Capital Outlay project (P00087) was \$7,796,463.00. This M&C recommends an additional \$3,200,000.00, from newly recognized revenues, in appropriations for FY2025, for an adjusted budget of \$10,996,463.00.

<b>Capital Fund Name</b>	<b>Project Name</b>	<b>FY2025 CIP Appropriations</b>	<b>Authority</b>	<b>Budget Changes (Increase/Decrease)</b>	<b>Revised FY2025 Budget</b>
Water & Sewer Capital Projects - Fund 56002	P00087 - Water & Sewer Outlay	\$7,796,463.00	This M&C	\$3,200,000.00	\$10,996,463.00
		<b>\$7,796,463.00</b>		<b>\$3,200,000.00</b>	<b>\$10,996,463.00</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 funds are currently available in the Water Prior Lien Debt Service Fund and upon approval of the above recommendations and adoption of the attached appropriation ordinances, funds will be available in the current operating & capital budgets, as appropriated, in the Water & Sewer 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:**    Jessica McEachern    5804

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

**Additional Information Contact:**                    Sarath Padar                    8407

Expedited