

# Mayor and Council Communication

**DATE:** 05/12/26

**M&C FILE NUMBER:** M&C 26-0355

**LOG NAME:** 60FY26BUDGETADJUSTMENT

## **SUBJECT**

(ALL) Adopt Appropriation Ordinances Revising Appropriations in Identified Water Utility Debt Service Funds to Make Additional Resources Available for Current Year Debt Service Obligations and Enacting Fiscal Year 2026 Budget Adjustments in the Water and Sewer Fund Totaling \$72,450,000.00 from Anticipated Additional Projected Revenues and Reduced Transfer for Debt to Fund Capital Projects; Amending the Fiscal Year 2026 Adopted Budget; and Effecting a Portion of Water's Contribution to the Fiscal Years 2026-2030 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 Debt Reserve Fund in the amount of \$4,500,000.00, from legally available funds in excess of debt service reserve requirements, for the purpose of transferring to the Water Prior Lien Debt Service Fund;
  2. Adopt the attached appropriation ordinance adjusting estimated receipts and appropriations in the Water Prior Lien Debt Service Fund by increasing the use of net position in the amount of \$32,450,000.00, from available funds in excess of reserve requirements, and decreasing a budgeted transfer in from the Water & Sewer Fund by the same amount;
  3. 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 \$21,367,125.00 and in the Capital Intrafund Transfer Out account in the amount of \$11,082,875.00 and decrease the estimated receipts and appropriations in the Debt Transfer Out – Principal account by the total amount of \$32,450,000.00;
  4. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water and Sewer Fund in the amount of \$40,000,000.00, from anticipated projected revenues, for the purpose of funding the Utility's pay-as-you-go capital program;
  5. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water & Sewer Capital Project Funds, in the amount of \$11,082,875.00, 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
  6. Amend the Fiscal Years 2026-2030 Capital Improvement Program.
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## **DISCUSSION:**

This Mayor and Council Communication (M&C) takes actions to make more dollars available for the Water Utility System's capital program by appropriating additional revenues beyond what was budgeted, in the event they are received, and reallocating available resources associated with the system's debt program to make more efficient use of available funds.

Specific actions consist of (1) declaring a surplus in the Water Debt Reserve Fund from interest earnings and appropriating those legally available dollars for a transfer to the Debt Service Fund; (2) programming legally available net position (fund balance) in the Water Prior Lien Debt Service Fund toward current-year debt service payments and reducing a budgeted transfer in from the Operating Fund so that those operating dollars can instead be transferred to capital; and (3) appropriating the additional operating dollars made available by the first two actions along with additional revenues, in the event they are received by the Utility, due to higher than budgeted water usage and sewer flows due to hot and dry conditions throughout the year;

Per Ordinance No. 27979-09-2025 Section 4, the Fiscal Year (FY) 2026 Adopted Budget for the Water and Sewer Fund was \$674,171,145.00. The adopted budget was subsequently adjusted in the amount of \$354,500.00 via M&C 25-0964 approved on October 21, 2025, in the amount of \$72,939.50 via M&C 25-1004 approved on October 25, 2025, and in the amount of \$1,418,288.00 for an adjusted budget of \$676,016,872.50.

The Water utility's various Funds, including the Water Prior Lien Debt Service and Water Debt Reserve Funds, generate interest income by prudently investing idle cash in strict compliance with state law and City policy. The current practice is to allocate Water's interest income to offset its debt service costs associated with outstanding debt and to accumulate cash which can be used to pay off Water debt prior to maturity to achieve savings. The City has benefited tremendously from the current elevated interest rate environment, resulting in better-than-expected interest earnings due to higher Federal Funds rates.

As a result of recent interest rates, City staff has identified approximately \$4,500,000.00 in the Water Debt Reserve Fund in excess of the amounts required under the debt-specific reserve commitments and the Fund's general reserve requirements that can be transferred to the Debt Service Fund and (ii) a total of \$32,450,000.00 of net position in the Water Prior Lien Debt Service Fund that is in excess of the Fund's reserve requirements and can be used in accordance with pledge obligations to make current year debt service payments.

Staff recommends for City Council to declare these amounts as surplus and program them for use to make current year debt service payments, in accordance with the terms of bond covenants for outstanding debt. For the Reserve Fund the first ordinance appropriates the surplus to the Debt Service Fund. With the Debt Service Fund, adoption of the second attached ordinance appropriates available surplus for current year debt service payments and reduces the transfer in from the Water & Sewer (operating) Fund by the same amount. Once the debt fund appropriations are

made, those additional dollars that are freed up in the operating fund plus projected higher than budgeted revenues (a grand total of \$72,450,000.00) will be appropriated for a transfer to Water's Capital Fund.

As individual capital projects are identified, M&Cs will be brought forward to appropriate dollars in the capital fund.

The actions in this M&C will amend the FY2026 Adopted Budget as approved in connection with Ordinance 27979-09-2025 Section 4, Enterprise Funds, as listed on page 17.

**Water and Sewer Operating Fund:**

<b>Fund/Department Budget Category</b>	<b>FY2026 Adopted Budget</b>	<b>Authority</b>	<b>Budget Adjustment</b>	<b>Revised FY2026 Budget</b>
Revenues				
License and Permits Revenue	\$2,252,443.00			\$2,252,443.00
Charges for Services Revenue	\$596,575,968.00	This M&C	\$40,000,000.00	\$636,575,968.00
Use of Money Revenue	\$7,346,386.00			\$7,346,386.00
Other Revenue	\$16,159,260.00			\$16,159,260.00
Non-Operating Revenue	\$130,000.00			\$130,000.00
Transfer in Revenue	\$51,707,088.00	This M&C		\$51,707,088.00
Use of Fund Bal/Net Position	\$0.00	26-0061	\$1,418,288.00	\$1,845,727.50
		25-0964	\$354,500.00	
		25-1004	\$72,939.50	
<b>Total Revenues</b>	<b>\$674,171,145.00</b>		<b>\$41,845,727.50</b>	<b>\$716,016,872.50</b>
Expenditures				
Reclaimed Water Dept	\$1,000,000.00			\$1,000,000.00
Wastewater Dept	\$285,941,801.00	26-0061	\$709,144.00	\$311,150,945.00
		This M&C	\$20,000,000.00	
Water Dept	\$387,229,344.00	26-0061	\$709,144.00	\$408,365,927.50
		25-0964	\$354,500.00	

		25-1004	\$72,939.50	
		This M&C	\$20,000,000.00	
<b>Total Expenditures</b>	<b>\$674,171,145.00</b>		<b>\$41,845,727.50</b>	<b>\$716,016,872.50</b>

**Water Priority Lien Debt Service Fund:**

<b>Fund/Department Budget Category</b>	<b>FY2026 Adopted Budget</b>	<b>Authority</b>	<b>Budget Adjustment</b>	<b>Revised FY2026 Budget</b>
Revenues				
Transfer In Revenue	\$139,620,311.00	This M&C	(\$32,450,000.00)	\$107,770,311.00
Use of Net Position			\$32,450,000.00	\$32,450,000.00
<b>Total Revenues</b>	<b>\$139,620,311.00</b>			<b>\$139,620,311.00</b>
Expenditures				
Financial Management Services (Debt Obligation)	\$139,620,311.00			\$139,620,311.00
Contribution to Fund Balance/Net Position				
<b>Total Expenditures</b>	<b>\$139,620,311.00</b>			<b>\$139,620,311.00</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, Water Debt Reserve Fund and in the Water & Sewer Fund, and upon approval of the above recommendations and adoption of the attached appropriation ordinances, funds will be available in the current operating budget, as appropriated, in the Water Prior Lien Debt Service Fund and the Water & Sewer Fund and in the Water & Sewer Capital Projects Fund. 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

Expedited