

Meeting Date: 5/25/2015

Report Type: Information

**Utilities Rate Advisory
Commission Report**

915 I Street, 1st Floor

www.CityofSacramento.org

Title: Department of Utilities Financial Update

Location: Citywide

Recommendation: Receive and File

Contact: Susan Goodison, Business Services Manager, 808-8995

Presenter: Susan Goodison, Business Services Manager

Department: Utilities

Division: Business & Integrated Planning

Dept. ID: 14001661

Attachments:

01 Description/Analysis

02 Background

Submitted By: Wally Cole

Adobe Signature:



Approved By: Bill Busath

Adobe Signature:



Attachment 01 – Description/Analysis

Policy Considerations: None.

Economic Impacts: None.

Environmental Considerations: None.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Not applicable.

Financial Considerations: None.

Attachment 02 – Background

Background

This update is part of the Department of Utilities (DOU) periodic reporting on various water, wastewater and storm drainage financial matters. This report includes information about the FY2015/16 year-end budget projections and a preview of the FY2016/17 budget.

FY2015/16 Year-End Projections

The Department's FY2015/16 budget was developed with a continued focus on delivery of DOU's capital program, compliance with regulatory mandates, and water conservation. Additionally, the FY2015/16 budget reflects activities related to drought management, the acceleration of the water meter installation program, and replacing aging infrastructure in the Combined Sewer System (CSS).

The FY2015/16 fiscal year ends on June 30, 2016. The Department monitors its actual revenues and expenditures against the budgeted amounts monthly throughout the year. In consideration of actual revenues received and expenditures incurred to date through March 2016, the Department has updated its projected revenues and expenditures for each fund as described below.

Water Fund

The Water Fund FY2015/16 budget reflects a continued focus on management of the impacts of the drought. The budgeted revenue for FY2015/16 was developed based on meeting 20% water conservation goals. Subsequent to the development of the fiscal year budget, the Governor issued an executive order mandating 25% water conservation statewide and the State Water Resources Control Board stipulated a 28% conservation level for City of Sacramento. User fees billed through Dec 31, 2015 indicated a need to reduce the revenue budget by \$1.3 million, and this adjustment was made during the citywide midyear budget process. Based on revenues received through March 2016, the Department is currently projecting that FY2015/16 revenues will come in \$1.7 million higher than what was budgeted. Non-user fee related revenues are exceeding budgeted amounts primarily due to increased development and the fees such as water tap fees, residential water construction, water flow test fees, fire hydrant user fees charged for development-related services. In addition, the department received one-time revenue in the amount of \$384,000 as a result of settlement of a class action lawsuit with J-M Manufacturing for substandard pipe used in water systems. Currently, the Department expects that FY2015/16 expenditures for the Water Fund will come in \$1.4 million less than what was budgeted. If realized, the net impact of these projections would result in \$3.1 million of net income to the Water Fund over what had been budgeted.

Wastewater Fund

The Wastewater Fund FY2015/16 budget reflects projected revenue at FY2014/15 levels. Based on revenues received through March 2016, the Department is currently projecting that FY2015/16 revenues will essentially equal what was budgeted. Currently, the Department expects that FY2015/16 expenditures for the Wastewater Fund will come in \$573,000 less than what was

budgeted. If realized, the net effect of these projections would result in an additional \$573,000 of net income to the Wastewater Fund over what had been budgeted.

Storm Drainage Fund

User fees for the Storm Drainage Fund have not been adjusted since 1996. Accordingly, budgeted revenues for the Storm Drainage Fund for FY2015/16 reflect an immaterial change in revenues from FY2014/15. Based on revenues received through March 2016, the Department is currently projecting that FY2015/16 revenues will come in \$828,000 higher than what was budgeted. Currently, the Department expects that FY2015/16 expenditures for the Storm Drainage Fund will come in \$1.4 million less than what was budgeted. If realized, the net impact of these projections would result in an additional \$2.3 million of net income to the Storm Drainage Fund over what had been budgeted.

FY2016/17 Budget Preview

The City's proposed FY2016/17 budget has been released and is available on the City's public website for review. The Department completed and submitted its proposed FY2016/17 budget for each fund prior to the Council's approval of four-year rate increases for the Water (10% per year) and Wastewater (9% per year) Funds. The Department presented revised Water and Wastewater budgets that included rate adjustment-supported augmentations to City Council on May 10, 2016. In general, the Department's proposed FY2016/17 budget reflects increased expenditures to sustain operating needs, replace aging infrastructure, comply with regulatory mandates, and maintain the financial stability of the funds. All of these activities are in alignment with the long-term strategy approved by the City Council in 2012 that focuses on:

- Investment in the City's capital and regulatory programs
- Maintaining reliable and high quality service
- Moving the City toward industry best practices for infrastructure replacement and maintenance
- Complying with legislative and regulatory mandates and regulations
- Ensuring environment compliance

Water Fund

The proposed FY2016/17 Water Fund Budget reflects a continued focus on acceleration of the Water Meter Program. Revenues from the approved 10% rate increase, projected at \$9.1 million, will be used primarily to support infrastructure projects. The majority of the expenditure increase will be used for the Residential Meter Program Capital Improvement Program (CIP). This proposed budget includes an addition of ten Full Time Equivalent (FTE) positions primarily focused on supporting the drinking water quality program. These positions will support assurance reporting and testing, and regulatory and safety compliance measures; implement water distribution system flushing to ensure water quality; alleviate operator staffing shortages at both water treatment plants; accelerate improvement of security systems at water treatment and distribution plants; and enhance GIS capabilities to facilitate water quality and other data availability and accuracy.

Wastewater Fund

The proposed FY2016/17 Wastewater Fund budget reflects new projected revenues of \$2.7 million from the approved 9% rate increase that will be used primarily to support infrastructure projects. The majority of the expenditure increase will be used for the Wastewater Combined Sewer System Program CIP and operating expenditures including the addition of three FTE positions to manage the Supervisory Control and Data Acquisition (SCADA) system and provide project management oversight of the new customer information and billing administration system.

Storm Drainage Fund

The Storm Drainage Fund FY2016/17 Proposed Budget reflects an immaterial increase in revenues and expenditure from FY2015/16 to FY2016/17. Nevertheless, projected expenditures for the Storm Drainage Fund are expected to exceed projected revenues for FY2016/17, resulting in use of fund balance to cover the variance. The five-year forecast does not include a rate increase, and will continue to rely on the use of reserves to balance the fund. Pursuant to Proposition 218, a voter-approved ballot measure is required to increase rates, which will be necessary in the future to sustain operational, capital, and regulatory requirements as fund reserves continue to be depleted.

The Department's final proposed FY2016/17 operating budget and FY2016/17 - FY2020/21 five-year CIP will be presented to the City Council on June 14, 2016 for final adoption.