

Council Meeting Staff Report

February 15, 2017

Agenda No.:	7.D
Indexes (Council Goals):	BCC - N/A
Presenters:	Bob Westervelt
Legislative File:	9093-17

Title

Department of Public Utilities FY2018 Budget Presentation

Recommended Action

None - discussion item only. Budget will be presented in March for approval.

Staff Recommendation

None - discussion item only. Budget will be presented in March for approval.

Body

Attached is the proposed budget for FY2018. The budget as presented is a reduction of 1% from the fiscal year 2017 budget, and a reduction of 5% from the preliminary FY2018 budget presented last year. The change from the preliminary budget reflects two significant planning changes. The White Rock Wastewater plant previously scheduled for construction in FY2018 has been moved out to FY2021 due to funding constraints. Offsetting that reduction somewhat, the ski hill pipeline originally scheduled for FY2017 has been pushed out into FY2018, and \$1.5M of the water well replacement project originally scheduled for FY17 has been pushed out to FY18.

Changes in each Utility sub fund are discussed below.

Note: this is a preliminary draft, some inputs are still being finalized and some numbers are likely to change between now and final presentation to the Board for approval in March. All changes will be noted when the Board considers the final budget for adoption in March.

Staffing changes

We have one additional limited term FTE on the admin roster, but that additional person is funded by the County ERP project to partially backfill staff resources that will be dedicated to the project. Included in the Electric Production budget is funding for double filling a Hydro Plant Maintenance technician for one year in anticipation of retirement of one of the existing staff in 2018. This double fill is utilizing an existing vacancy so does not result in an increased FTE count. The Plumbers and Pipefitters Union agreement is coming up for renewal, and negotiations are likely to result in some salary adjustment. There is also a reclassification of a staff position in the Admin division. \$47,000 is included in the Admin budget to provide funding for these changes.

Budget Highlights

Per County Budget Office guidance, a 2% increase for salaries is assumed for this budget. The ten-year capital plan is included in the agenda packet, as well as more detailed descriptions of the projects planned for FY018.

Interdepartmental charges from the County (IDCs) increased by 637k, or 36%, mostly in legal, procurement, and IT support. Department admin costs increased by \$425k, or 10%. This includes a

planned reconfiguration of the Customer Care center budgeted at \$250k, adding one Meter Reader that was scheduled for transfer to GWS back into the Admin budget due to the postponement of the AMI project, and adding \$50k for an additional “off cycle” cost of service study to consider electric rate design. The allocation of these costs to the utilities is still being reworked, but preliminary allocations are included in each utility’s O&M, so will not be discussed separately below.

Electric Distribution

No rate increases are projected in FY18 for electric distribution, although a rate restructuring may be proposed in response to recommendations of the Future Energy Resources Committee. The ten year forecast includes essentially inflationary increases of 1.5% per year after FY18. The Los Alamos Sub Station (LASS) project is scheduled for FY17, but there is \$500k in the capital plan for substation feeders that were not included in the original project plan. The O&M budget in electric distribution is essentially flat compared to the preliminary budget presented last year.

Electric Production

The O&M budget for Electric Production is \$1.9M lower then presented in the projection last year, due primarily to continuing low purchased power costs. There is \$450k included for LAC’s share of the COLA preparation for the Carbon Free Power Project.

Gas

The new NMMEA deal guarantees a \$0.274 discount, which is included in the budget for FY2018. Natural gas market prices remain low, and gas purchases are budgeted at \$3.0014/MMBTU (before the NMMEA discount). A ten percent rate reduction was implemented in FY17 to spend down some Gas Utility cash reserves, and it was projected that another ten percent reduction in FY18 would be viable while still retaining adequate cash reserves. This budget does propose that additional 10% reduction in the fixed portion of the commodity rate charged to consumers. The O&M budget for the Gas utility remains essentially as budgeted previously except for the increased IDC and admin allocations already discussed.

Water Production and Distribution

The capital plan for Water Production, like last year, includes non-potable projects that are funded through a partial grant/loan from the Water Trust Board (WTB). These projects will only occur if the WTB funding is realized. The capital plan also includes the ski hill pipeline construction, which is funded through transfers from the general County and from the ski hill operator. \$1.5M of the projected cost for the water well replacement project previously budgeted for FY17 has been budgeted for FY18 as well.

Pending further discussion and planning for the San Juan Chama utilization project, no San Juan Chama funding is included in the 10-year financial forecast or capital plan.

The O&M and capital budget for water production and distribution has been revised extensively to reflect the proposed twenty-year plan presented to the Board at the November, 2017 BPU meeting. Water sales appear to have stabilized more in line with the revised sales projections we adopted in last year’s budget cycle. In accordance with the long range plan, an 8% increase in wholesale and retail potable rates is budgeted in FY18, as well as an increase for non-potable sales from \$1.15 per thousand gallons to \$2.50, reflecting the improved cost breakdown and accounting that now allows us to better determine the delivery cost of the non-potable commodity. As shown in the ten-year plan, additional modest rate increases are projected through 2021, then essentially inflationary

increases thereafter.

Wastewater Division

The wastewater utility is facing some financial challenges and does not have the cash balance required to fund the planned White Rock treatment plant that was previously scheduled for FY18. This will be discussed at length in a separate agenda item this evening. A series of additional rate increases is proposed in the ten-year plan which if implemented should provide adequate resources to continue operations at the existing plant for a few more years and build sufficient cash reserves to support debt service on the design and construction of the White Rock plant in 2021. An 8% increase is budgeted for FY18. The O&M budget for the Wastewater utility is significantly reduced from the preliminary budget presented last year, due primarily to reduced debt service related to rescheduling the construction of the White Rock plant.

Alternatives

N/A

Fiscal and Staff Impact

See above

Attachments

A - Draft Fiscal Year 2018 Budget Packet