

Council Meeting Staff Report

March 21, 2018

| | |
|---------------------------------|----------------|
| Agenda No.: | 7.B |
| Indexes (Council Goals): | BCC - N/A |
| Presenters: | Bob Westervelt |
| Legislative File: | 10317-18 |

Title

Approval of Department of Public Utilities FY2019 & FY2020 Budget

Recommended Action

I move that the Board of Public Utilities approve the Fiscal Year 2019-2020 budget as presented and forward to Council for adoption.

Staff Recommendation

Staff recommends approval of Fiscal Year 2019-2020 budget as presented.

Body

Attached is the proposed budget for fiscal years 2019 and 2020. This is the first year of a two-year budget cycle. The changes from the February presentation are as follow.

- ☐ Moved \$100,000 from the “Other Contractual Services” line item to the “Capital Outlay” line item to provide for replacement and upgrade of the dump truck at the wastewater treatment facility. This change affects FY19 only.
- ☐ Added \$150,000 to the Admin budget in FY19 to provide budget authority to proceed with the Customer Care Center reconfiguration should the decision be made to do so. The project was originally estimated and budgeted at \$250,000, which amount will be carried over from FY18, but the bids all came in at closer to \$400,000. While the project will be the subject of future discussions, this funding is included to provide budget authority should the decision be made to move forward. This change flows through to all the funds through the “Administrative Allocation” line item in each fund.
- ☐ Interdepartmental Charges from the General County (IDC’s) increased by \$60,149 In each year. IDC’s are calculated and provided by the County Budget Office. While several IDCs are still estimated, the estimates were updated after the February Board meeting. These flow through to all the funds. If necessary, any further revisions will be addressed through budget adjustments and will be brought to the BPU and Council for approval at that time.
- ☐ Purchased Power increased by \$337,960 in FY19 to reflect a revised and updated power supply projection. DOE Revenues, Economy Sales, and the Transfer of costs to the Electric Distribution fund were adjusted accordingly.
- ☐ The February draft did not include the FY20 wage increases provided for in the union contracts. This correction amounts to \$6,458 labor and benefits increase in Electric Distribution, and \$33,300 labor and benefits increase spread among the Water, Wastewater, and Gas utilities. The FY19 salary adjustment was properly included in the previous budget draft.
- ☐ The February report indicated a 10% decrease in total budgeted expenditures between the FY18 approved budget and the FY19 proposed budget. Because of all the changes outlined above, the decrease now totals 9.4%. The updates for FY20 are relatively immaterial,

and the resulting percentage change remains at approximately 4% increase over FY18's approved budget and a 15% increase over the proposed FY19 budget. The increase in FY20 budget is due primarily to planned construction of the White Rock Wastewater Treatment Plant in that year.

Budgets for each Utility sub fund are discussed below.

Staffing changes

There are no staffing changes proposed in this budget. We continue to have one limited term FTE on the admin roster, funded by the County ERP project to partially backfill staff resources that will be dedicated to the project. That position is expected to expire when the ERP project is finished. The Electric Production budget continues to fund double fill of a Hydro Plant Maintenance Technician 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. There are no realignments contemplated nor are there any Union agreements scheduled for renewal.

Budget Highlights

Per County Budget Office guidance, salaries were budgeted "flat" except for the increments included in the existing Union agreements. The ten-year capital plan is included in the agenda packet, as well as more detailed descriptions of the projects planned for FY19 and FY20.

Interdepartmental charges from the County (IDCs) are essentially flat in both years presented compared to FY18. Department admin costs decreased by \$352k, or 7% in FY19 and remain essentially at that level in FY20. The planned reconfiguration of the Customer Care Center, budgeted at \$250k in FY18, has not been re-budgeted, as funds will be available for carryover should the project not be completed in FY18. The remainder of the decrease is the result of several studies and initiatives that were budgeted in FY18 that will be completed in FY18 or will be carried over, so have not been re-budgeted in FY19 or FY20. Allocation of Admin costs are included in each utility's O&M, so will not be discussed separately below.

Electric Distribution

No rate increases are projected in FY19 for electric distribution. The ten-year O&M budget forecast includes essentially inflationary increases of 1.5% per year after FY19. The Los Alamos Sub Station (LASS) project is scheduled for completion in FY18, so no additional funding is included in this budget for that project. Projects in Electric Distribution consist of routine overhead and underground replacements as needed.

Electric Production

The O&M budget for Electric Production is \$1.5M lower than FY18, due primarily to continuing low purchased power costs. There is \$250k included each year for LAC's share of the COLA preparation for the Carbon Free Power Project, to establish budget authority should the County decide to continue participation in this phase of the project.

Gas

The NMMEAA 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 \$3.05/MMBTU in FY19,

and \$3.60/MMBTU in FY20 (before the NMMEA discount). There are no major O&M or projects initiatives scheduled for this budget period.

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 LA Reservoir Road Stabilization project, funded primarily with FEMA funds. The County portion of the project, amounting to \$407,500, is being funded jointly by the DPU and the General County.

The O&M and capital budget for water production and distribution has been revised extensively to reflect the proposed 20-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, a 6.25% increase in retail potable rates is budgeted in FY18. As shown in the ten-year plan, additional modest rate increases are projected through 2022, then essentially inflationary increases thereafter. While in previous drafts of the long-range plan additional increases in the wholesale water rate were projected, the current revision shows adequate cash flow with no additional wholesale rate increases, and previously scheduled increases have been deleted from the 10-year projection.

Wastewater Division

Several initiatives have been implemented to alleviate the financial challenges in the wastewater division associated with the need to construct a replacement treatment facility in White Rock. Through joint Board/Council action, an ordinance was adopted in FY18 allowing for the transfer of excess funds from the Gas fund to the Wastewater fund. A transfer of \$2.5M was used in February to pay down the existing balance of the debt on the LA Plant. In addition, the remaining balance can be refinanced at a lower rate, and potentially the term extended, further reducing debt service requirements in the fund. Staff is evaluating options and will make a final refunding recommendation within the next month or two, but for this budget refinancing for the current loan term of 20 years on the LA Plant debt, and financing of the new plant for 30 years is assumed. All other projects in both the treatment plants and the collection system have been postponed allowing staff and funding to be concentrated on a successful White Rock plant project. Other projects are scheduled to resume in the out years on the 10-year plan.

The financial position of the wastewater fund and several long-term scenarios were discussed with the Board in previous meetings. With the financing initiatives described and the judicious postponement of other large capital projects, the rate trajectory presented in the alternative selected by the Board for implementation appears adequate. As shown on the 10-year plan, this includes an 8% increase in FY19, 6.25% in FY20, and ratcheting downward to essentially inflationary increases by 2024.

Alternatives

The Board could elect to adjust individual items in the budget by appropriate language in their adopted motion or could adopt the budget as presented.

Fiscal and Staff Impact

See above

Attachments

A - FY 2019-20 Budget Briefing Package