



# County of Los Alamos

Los Alamos, NM 87544  
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## Council Meeting Staff Report

February 20, 2019

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<b>Agenda No.:</b>	7.A
<b>Indexes (Council Goals):</b>	BCC - N/A
<b>Presenters:</b>	Bob Westervelt
<b>Legislative File:</b>	11419-18

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### Title

Department of Public Utilities FY2020 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 FY2020. Last year was a two-year budget cycle in which the then current year (FY19) actual budget and a projection for the subsequent year (FY20) was presented. This year that second-year budget is updated and considered for approval.

The FY20 expenditure budget overall as presented is lower than the projection last year, due primarily to the postponement of construction of the White Rock Treatment Plant until 2021, offset somewhat by the addition of budget authority for the Gas and Water portions of the AMI project, and additional projects scheduled in the water production budget, which will be discussed below.

Comparing to the final FY19 approved budget, the proposed FY20 budget represents a 2.1 percent increase, again, due primarily to the addition of the Gas and Water portions of the AMI project and the water production projects mentioned above and discussed in more detail in the water section below.

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. Interdepartmental charges (IDC's), for example, have not been finalized by the Office of Management and Budget, so will need to be updated in the final budget presented for adoption. All changes will be noted when the Board considers the final budget for adoption in March.

### Staffing changes

There are no additional FTEs proposed in this budget. The limited term FTE previously shown in the Admin budget was in support of the County ERP project and was funded by that project, but with the conclusion of that project is no longer budgeted. In anticipation of the retirement of a Hydro Plant Maintenance Technician, an existing FTE was used to double fill that position in FY19. That retirement has occurred, freeing up that FTE. At least for the coming budget period, we are utilizing that FTE to provide some redundancy and support in Admin while we catch up and adopt new procedures in the new ERP. It is planned for that individual to be able to assume the duties to cover for an anticipated retirement in the Customer Care section in Admin in the coming year, at which time that FTE will be used to fill an identified need for a second GIS technician.

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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 General County will propose an “add in” budget item for a county wide increase. If approved by Council, the Utilities budget would be adjusted, and Utilities staff included in that proposal. The ten-year capital plan is included in the agenda packet. The more detailed descriptions of the projects planned for FY20 were not available for publication with this agenda package but should be available for distribution at the meeting.

Interdepartmental charges from the County (IDCs) have not been finalized for FY20, so are showing as “flat” compared with FY19 in this presentation.

Department admin costs decreased by \$38k, or 0.8% in FY20 from the FY19 budget. The planned reconfiguration of the Customer Care Center, budgeted at \$250k in FY18 plus \$100k in FY19, has been cancelled while uncertainties regarding County tax revenues are resolved. The project will be re-budgeted at a future date if deemed prudent at the time. The \$100k reduction from FY19 is offset somewhat by the additional staff position discussed above. Allocation of Admin costs are included in each utility’s O&M, so will not be discussed separately below.

There are several projects included in the FY20 budget presented here that it is anticipated will be initiated in FY19, and FY19 budget adjustments may be necessary to contract those projects. They are budgeted here to ensure the effect on fund balances are included in this budget presentation, as they are not shown in the “revised FY19 budget” column yet. When these projects are brought forward for approval, any required budget adjustments will note and acknowledge if that funding was provided for in the FY20 budget. These projects include the engineering for the White Rock Treatment Plant, the new engine for Pajarito Well #4, the well house and equipment for the new Otowi Well #2, and the water and gas portions of the AMI project.

## **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. Overall operating expenses in ED are lower by \$1.275M, due primarily to lower cost of power, which will be discussed further in the Electric Production section below. Projects in Electric Distribution consist of routine overhead and underground replacements as needed.

## **Electric Production**

The O&M budget for Electric Production is \$900k lower than FY19, due primarily to continuing low purchased power costs. LANL’s load forecast is higher by 86,483 Mwh, but is covered primarily by purchased power, which projections continue to indicate will come in fairly low, at around \$32/Mwh. In additional projected costs at both San Juan and Laramie River are lower. San Juan had a scheduled outage in FY19 which is not repeated in FY20, and Laramie River environmental upgrades completed in FY19 are also not repeated. As in FY19, there is \$250k included 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**

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The NMMEAA deal guarantees a \$0.274 discount, which is included in the budget for FY2020. Natural gas market prices remain low, and gas purchases are budgeted at \$2.78/MMBTU in FY20 (after the NMMEAA discount). The gas portion of the AMI project is included in this budget at \$2,102,907. There are no other major O&M or project initiatives scheduled for this budget period.

## **Water Production and Distribution**

The capital plan for Water Production, as has been the practice for several years, includes non-potable projects that are funded through a grant/loan from the Water Trust Board (WTB). These projects will only occur if the WTB funding is realized. The capital plan also includes \$1.9M for the Otowi Well #2 well house, pump, and equipment, \$750k for a chlorination building and pipe replacement at NM4 and Tsankawi, and \$800k to replace the failed gas engine at Pajarito Well #4. Like the well drilled in FY19, these projects are funded with existing fund balance. In addition, the water portion of the AMI project is included in the Water Distribution budget at \$1,694,378.

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 FY18's budget cycle. In accordance with the long-range plan, an 8% increase in retail potable rates is budgeted in FY20. As shown in the ten-year plan, additional modest rate increases are projected through 2024, then essentially inflationary increases thereafter.

## **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. Debt service has been adjusted for the refinance of the Los Alamos Treatment Plant loan. Long range projections include financing costs for the White Rock plant, but those do not start until one year after the new plant is placed in service, so are scheduled for FY22.

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 6.25% increase in FY20, 5% in FY21, and ratcheting downward to essentially inflationary increases by 2026.

## **Alternatives**

N/A

## **Fiscal and Staff Impact**

See above

## **Attachments**

- A. FY2020 Fund Flows
- B. Ten Year Forecast - FY2020 through FY2029
- C. Ten Year Capital Plan

