



County of Los Alamos

Council Meeting Staff Report

February 24, 2021

Agenda No.:	7.A
Indexes (Council Goals):	DPU FY26 - 2.0 Achieve and Maintain Excellence in Financial Performance
Presenters:	Bob Westervelt
Legislative File:	13843-21

Title

Department of Public Utilities FY2022 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 FY2022. Last year was a two-year budget cycle in which the then current year (FY21) actual budget and a projection for the subsequent year (FY22) was presented. This year that second-year budget is updated and considered for approval.

The FY22 expenditure budget overall as presented is \$21,530,836 higher than the FY22 projection presented last year, primarily because of the re-budgeting of several projects in FY22 that could not be completed in FY21, due in large measure to work restrictions related to COVID; some additional projects scheduled due to the availability of very favorable financing options; and projected increases in costs of purchased commodities (electricity and gas). Specific re-budgeted items will be discussed in the sections below.

Referring to the summary tab on the Funds Flow worksheet attached, the overall budget shows a modest decrease from FY21's approved budget to the FY22 proposed budget. This is primarily because of the wastewater treatment plant loan funded project included in the FY21 budget, which is not included in the FY22 proposed budget. As noted above and will be discussed further in the sections below, however, there are some new projects budgeted in FY22 which somewhat offset that reduction, but which are also shown funded through other financing, as opposed to directly through rates. By subtracting off those projects, re-budgeted items, and increases to commodities, which we have no direct control over and which, for the most part, are passed through to the end users, we have a true comparison of operating and Capital budgets for the two years. As shown, FY22 is budgeted \$898,607, or 1.39%, higher than FY21, which includes inflation, salary adjustments, and known/planned changes to operations.

The FY21 Projected Actuals are somewhat higher than the FY21 Approved budget, as several projects were carried over from FY20 and are included in the projected actuals. Budget authority for those projects was initially established in FY20 and is also carried over. There are likely to be similar carry overs from FY21 into FY22.

Specifics 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

There are no changes proposed to our FTE count in the FY22 budget. Due to delays in full deployment of the AMI project, the planned reductions in the meter reading staff have not yet been realized. The additions provided for in the FY21 budget of a Conservation Officer/Procedures Specialist and an additional Senior Office Specialist, and the transition of a limited term position in Water Production to a regular FTE, have not yet occurred, as those positions were planned to coincide with the reductions in meter reading staff. With AMI now moving forward, the proposed FY22 budget reflects those changes. Like last year, Budget Office guidance is to budget those positions at the current salary, and to include funding for potential reclassification of the positions in the “promotions/new hires” line item in the Admin budget. \$75,000 is included in FY22 for that purpose.

Other than those salary adjustments discussed above, there are no realignments planned in the current budget. The Plumbers and Pipefitters Collective Bargaining Agreement is scheduled for renewal in July of CY2021. If negotiation of that Union Agreement results in changes to the wage or benefits for those positions, a budget adjustment will be proposed when those agreements are considered for approval.

Budget Highlights

Per County Budget Office guidance, salaries were budgeted with a 3% overall increase, except for the increments included in the existing Union agreements.

The ten-year capital plan and project descriptions is included in the agenda packet. The project plan shown by utility is included so will not be discussed further in this staff report, other than to reflect the financial impact on the budget and any financing proposed or planned for those projects.

The following bullets highlight key points related to the current budget proposal:

All Divisions

- Increase in direct labor costs of 5.2%, (\$393,533 more than FY21). This includes the 3% salary increase guidance plus the additional funds budgeted in the “promotions/new hires” line item of the admin budget as described elsewhere in this report.
- Increase 6.4% in benefits for increased medical insurance costs (\$188,012 more than FY21)
- Overall increase in IDCs of 5.6%, \$157,809 total from FY21, due to inflationary pressures in other County budgets.

Administration

The department admin budget, which includes Engineering, Public Relations, Finance and Admin, Billing, and Customer Care, decreased by \$937,228, or 15.8% in FY22 compared to the FY21 budget. \$425k was included in FY21 for reconfiguration of the Customer Care workspace, which is not re-budgeted in FY22. In addition, \$250k budgeted in FY21 for acquisition/implementation of a Customer Relations Management application/program is not re-budgeted in FY22. These items will be carried over if not completed by FY21 year end. The Engineering and Public Relations budgets reflect the transfer of the Conservation Program expenditures to PR and the transfer of one FTE to

PR to fill the Conservation Officer position, as discussed previously. Funding for double fill of the Deputy of Finance for 6 months due to planned retirement is budgeted as well.

Electric Distribution

No rate increases are projected in FY22 for electric distribution. The revenue neutral rate restructuring previously proposed for FY21 has been postponed awaiting availability of detailed consumption data with implementation of the AMI project. The ten-year O&M budget forecast includes essentially inflationary increases of 1.5% per year after FY20, except for In Lieu taxes, budgeted according to anticipated asset values and tax rates, and Debt Service, budgeted according to current amortization schedules. Overall operating expenses in ED are higher by \$1,127,836, due primarily to higher projected cost of power, which will be discussed further in the Electric Production section below.

Highlights follow:

- Budget for contractual services for monthly safety training and tree trimming services (approx. \$220K total for these two items) continues in FY22.
- Proposed capital budget for FY22 includes \$700,000 for underground and overhead system replacements (in WR and LA), as well as \$50,000 for the White Rock GWS/ ED Facility at the WRTP, re-budgeted from FY21.
- Re-budgeted \$12k for SCADA for the line crew and \$60k for heat pumps at substations and switches.

Electric Production

The O&M budget for Electric Production is \$2.8M higher than FY21, due primarily to increases in purchased power costs. LANL is planning on increasing onsite generation, however currently the onsite generation does not have an associated cost in our budget as there is no contractual framework for inclusion. LANL's load forecast is higher by 87,696 MWh but will be offset by 99,501 MWh due to the onsite generation, for a net LANL load reduction for cost distribution purposes of 11,805 MWh. No further planned outages are scheduled at San Juan before the scheduled retirement of the plant in 2022. Laramie River environmental upgrades were completed in FY19 and will not be repeated. There are no direct costs associated with the Carbon Free Power Project as they are now being rolled into the cost of the project. Cost will be determined by LAC's continued involvement or subsequent departure from the project.

Highlights follow:

- There is a potential offramp for the Carbon Free Power Project in FY2022. LAC's obligation should that off ramp be taken is ~\$1.2M, budgeted in FY22. Should the offramp not be taken, that accrued liability would carry over to the next offramp or future project obligations.
- There is a significant increase of \$5,187,320 in cost for purchased power due to market projections of future power costs.
- There is a planned decrease of \$22,129 in Dispatch Center expenses, with a corresponding decrease in the Sandia/Kirtland offset of \$13,156 due to transfer of SCADA costs and responsibility to LANL.

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- Will be receiving 15MW per the new Uniper contract starting in April of FY 22.
 - San Juan Operations budget decreases in FY 2022 due to closure of plant.
 - Increase in capital for FY22 of \$365k. Projects include El Vado controls upgrade (\$440,000), fiber optic line spills substation to hydroelectric plant (\$375,000), Abiquiu transformer replacement (\$100,000), and RTU/Switches Fiber conversion at both Hydros. Total of \$1,165,000.
 - 1 current vacancy for the Power Scheduler/Energy Analyst approved as an addition in FY21.
 - Re-budgeted items include \$45k for lighting and equipment at the Hydros, \$30k for training postponed in FY21 due to COVID, mostly having to do operational changes/requirements associated with Energy Imbalance Markets, and \$45k for a WECC energy assessment and Peak Reliability assessment.

Gas

The NMMEA deal guarantees a \$0.295 discount, which is included in the budget for FY2022. Natural gas market prices remain low, and gas purchases are budgeted at \$2.96/MMBTU in FY22 including transportation (after the NMMEA discount).

Highlights follow:

- Continuing increased budget for contractual services for on call assistance with main line maintenance, cathodic protection and PRV maintenance totaling \$46k in FY22.
- Proposed FY 22 capital projects include the re-budgeted GWS/ED facilities at the WR WWTP (\$50,000).
- Moved \$281k from the capital budget to Ops for the White Rock Steel Key Valve Project as it is more of an operational activity to be completed as specific valves needing replacement are identified.
- Proposed FY22 capital projects include the Public Works road project for Alamo & Capulin roads (\$535,000) and \$300k for Various SCADA Pressure Monitoring Stations.
- Re-budgeted \$60k for meter changeouts anticipated with AMI deployment, as meter replacements are not included in the contract/budget for that project.

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 grants/loans from the Water Trust Board (WTB). These projects will only occur if the WTB funding is realized. The capital plan also includes re-budgeting of the Camp May Water Line at \$4M, funded with funding from the General Fund and the Ski Hill Operator, and an additional \$5.575M in projects funded with low interest Drinking Water State Revolving Loan funds.

The O&M and capital budget for water production and distribution has been revised from the proposed 20-year plan presented to the Board at the November 2017 BPU meeting to take advantage of the extremely low rate financing available, using the savings to accelerate some of the planned distribution system replacement projects that are scheduled. Water sales appear to have stabilized more in line with the revised sales projections we adopted in FY18's budget cycle. The three-year rate adjustments adopted in FY20 are incorporated into budgeted revenues.

Highlights follow:

Water Distribution

- Included \$40k in other contractual services for GIS upgrades, continued from FY21.
- Continued the increase initiated in FY21 for on call assistance with main line maintenance and valve maintenance in FY22. Budgeted in FY22 at \$104k, up from \$52k budgeted in FY21 (\$143k projected actuals in FY21).
- Budgeted an increase in supplies for the AMI project in meter changeouts and maintenance, and PRV station R&R in FY21, continuing in FY22. Also, \$255k is planned for meter changeouts in FY22 for approx. 1,200 meters.
- Proposed FY 22 capital projects include the re-budgeted GWS/ED facilities at the WR WWTP (\$50,000), 33rd and 34th Street distribution line replacements (\$448,000), and distribution line replacements to coordinate with the Public Works road project at Alamo & Capulin roads (\$732,000).

Water Production

- As in DW, included \$40k in other contractual services for GIS upgrades, continued from FY21.
- Decrease in pumping power is projected (\$150,000 less in FY22).
- Requesting 1 limited term employee to become a regular FTE in WP as a Senior Water Systems Operator. This FTE will be repurposing the remaining staff reduction from metering related to AMI, as discussed previously.
- Continuing increase in contractual services for on call assistance with well station maintenance, booster station maintenance for both potable and NP, transmission line maintenance, NP treatment system maintenance, and NP main and delivery line maintenance in FY 21 and 22.
- Increase in supplies for new control valves for wells and booster stations, and new pipeline valves are planned for transmission lines continuing in FY22.
- Added \$50k for Contractor services to locate, mark, and if necessary, replace transmission line main valves.
- Budget includes \$25k in FY22 for contractual services for a tabletop dam EAP in non-potable.
- Proposed FY 22 capital projects include a 2nd group 12 tank (NP-WTB, \$900,000), repainting of Barranca Mesa tank 2 (DWSRL, \$675,000); the Camp May Water Line (County plus Ski Hill Operator funded, \$800,000); MCC Replacement \$ Design (DWSRL, \$2,200,000), LA Reservoir road stabilization project (NMED - RSPG Grant, \$800,000), the re-budgeted GWS/ED Facilities at the WRWWTP (\$50,000), Improved filtration at the LA WWTP (WTB, \$2,875,000), NM SR4 transmission line replacement design and construction (DWSRL, \$2,980,000), and Tank Piping Upgrades (\$300,000). As indicated, most of these projects depend on loan or grant funding and will only be executed if that funding is realized.

Wastewater Division

The O&M budget in the wastewater division is essentially flat except for approximately \$800k additional debt service payments on the new WWTP loan. Like water, the three-year rate adjustments adopted in FY20 are incorporated into budgeted revenues.

Highlights follow:

- As in DW and WP, included \$40k in other contractual services for GIS upgrades, continued from FY21.
- Re-budgeted items include \$26k for SCADA Field Devices, \$155k for new pumps and MCCs, and \$263k for a new screen and large equipment replacements at the LA WWTP.
- Proposed FY22 capital projects include GWS/WC facilities at WR WWTP (\$50,000), re-budgeted from FY21, elimination of a Bayo Canyon Lift Station (\$550,000), the 33rd Street and 34th Street Utilities Replacement project (\$352,000), and improvements to the composting facility (\$495,000). Total projects of \$1,447,000.

Profit Transfer/ Budget Options

The Budget presented in attachments A - C and discussed above does not include projects proposed to be funded with Profit Transfer funds. In FY2020 Council approved a process whereby DPU would propose “budget options” which DPU would recommend be funded with Profit Transfer funds. A ten-year schedule of projected project recommendations is attached as Attachment D herewith. For FY2022, three projects are proposed to coordinate utilities infrastructure replacements with planned road construction along Canyon Road. Profit Transfer funding from FY20 sales totals \$799,727, and \$698k in projects are proposed. The recommended motion for budget approval, when presented, will include a clause for approval of use of profit transfer funds for these projects and approval of spending authority for these projects as “budget options”.

Alternatives

N/A

Fiscal and Staff Impact

See above

Attachments

- A. FY2022 Fund Flows
- B. Ten Year Forecast Revenues and Expenses FY2022 through FY2031
- C. Ten Year Capital Plan
- D. Ten Year Profit Transfer - Budget Options
- E. Financial Guidelines Approved by BPU 8-17-16