



Council Meeting Staff Report

February 16, 2022

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| Agenda No.: | 7.A. |
| Indexes (Council Goals): | DPU FY2022 - 2.0 Achieve and Maintain Excellence in Financial Performance |
| Presenters: | Heather Garcia |
| Legislative File: | 15213-21 |

Title
FY2023 & FY2024 Budget Presentation

Recommended Action

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

Staff Recommendation

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

Body

Attached is the proposed budget for FY2023 and the projected budget for FY2024. This is a two year-budget cycle with a proposed budget for the first year and a projected budget for the second year. Two years are presented to assist with the analysis of trends and spending. Next year, the projected budget for FY2024 will be updated and presented for approval.

The FY2023 expenditure budget overall as presented is \$1,846,224, or 2.09%, higher than the FY2022 budget that was approved in last year’s budget process. This is primarily due to increases in labor costs, interdepartmental charges, and contractual services. Projected FY2024 budgets are \$4.1 million or 4.59% higher than FY2023 proposed budgets. This is largely in part to increases in debt service for bonds and increased capital costs proposed in Electric Distribution.

Budget revisions and carryovers have been included in FY2022 approved budgets. This adjustment has been added to calculate the projected ending cash balances more conservatively for FY2022. If these expenses are excluded there is a potential to overstate cash balances and underestimate needed increases in revenues.

Specifics in each Utility sub-fund are discussed below.

NOTE: this is a preliminary draft. Some input is 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

Currently DPU has 95 regular term FTEs, two limited term FTEs, and 3.65 FTEs Casual, Student and Temps. FY2023 budgets show an additional FTE being added to the GWS division. This was presented to the board in the Water Systems Quarterly Update in January 2022. This position is included in budgets of labor and salaries for the gas, water, and sewer funds. Also, included in the proposed budget for FY2023 is to convert 1 limited term FTE to a regular term FTE because this Associate Engineer who manages the profit transfer projects now has certainty to have funded profit transfer projects for the next five-year term with annual renewals according to the recently passed ordinance by Council. Finally, the administrative budget allows for double filling the Deputy Utilities Manager for Gas Water Sewer because of a planned retirement.

Per County Budget Office guidance, salary adjustments for the coming year are estimated at a 5% increase, this increase is a combination of 3% adjustments to the salary grades and 2% for performance. A 3% increase is projected in the FY2024 salary and benefit costs. These increases are for employees outside of the collective bargaining agreements with DPU. Salary increases negotiated in existing union agreements with the United Association of Plumbers and Pipefitters and the International Brotherhood of Electrical Workers have also been included in both proposed and projected labor costs.

Budget Highlights

The ten-year capital plan and project descriptions are 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 6.2% are included in the proposed budgets for FY2023 (\$494,030 more than FY2022). This includes all planned salary increase guidance, the addition of the GWS FTE, plus additional funds in the “promotions/new hires” line item of the admin budget for double fill of planned retirement.
- * Increase 4.6% in benefits for increased medical insurance costs (\$143,351 more than FY2022) are included in the proposed FY2023 budget.
- * Overall increase in IDCs of 38.9%, \$1,167,876 total from FY2022, due to increased costs in other County budgets in FY2023.

Administration

The department admin budget, which includes Engineering, Public Relations, Finance and Admin, Billing, and Customer Care, increased by \$94,232, or 1.9% in FY2023 compared to the FY22 budget. The Finance and Admin Division proposal includes \$180,000 for investment advisors, bond rating review costs, and electric rate studies in support of the electric capital improvement plans included in the 10-year forecast. Three vacancies are included in labor costs for administration divisions, two in Finance and Administration and one in Public Information.

Electric Distribution

With the implementation of the AMI project, consumption and billing data needed to restructure rates is now available. DPU plans to hire a rate consultant to update and improve rate structures in electric distribution, however, a 5% flat increase to the current structure is reflected in the 10-year forecast and in revenues for FY2023 and FY2024. Due to an upward trend in the SADI, a more aggressive capital plan for Electric Distribution is being proposed. This includes the costs needed in debt service to bond for the \$30+ million-dollar project over the next ten years. The ten-year O&M budget forecast includes essentially inflationary increases of 1.5% per year after FY2023, except for In Lieu taxes, budgeted according to anticipated asset values and tax rates. Debt Service budgeted in FY2023 reflects current amortization schedules and starting in FY2024 debt service includes payments for \$24million in bonds estimated at 3.264% interest over 20 years. Overall operating expenses in ED are higher by \$1,338,760, due primarily to higher projected cost of power, which will be discussed further in the Electric Production section below.

Highlights:

- * Budget for contractual services for monthly safety training and tree trimming services (approx. \$160K total for these two items) continues in FY2023 and FY2024.
- * Proposed capital budget for FY2023 includes \$350,000 for design of URD replacements and \$300,000 for overhead system and recloser replacements (in WR and LA). Projected capital budgets for FY2024 reflect plans to increase improvements in URD and Overhead systems. Projects for FY2024 total \$6,375,000.
- * Two (2) vacancies are included in labor costs for ED.

Electric Production

The O&M budget for Electric Production is \$5.6M higher than FY2022, due primarily to increases in purchased power costs and costs associated with LANL system upgrades. LANL’s load forecast is lower by 37,448 MWh this year compared to last year. Significant reductions in San Juan are due to the scheduled retirement of the plant in 2022. Plans to extend use of the plant for 3 additional months in FY2023 are being considered, if this comes to fruition then costs for the additional use will be updated in the March presentation. Upon closure of the plant, LAC will be responsible for funding 2.45% of projected decommissioning costs. These costs are not included in the FY2023 budget but are currently included in DPUs restricted cash balances. A separate budget revision, if needed, will be presented to BPU when the trust is required to be funded. Re-budgeted in FY2023

is the off ramp for the Carbon Free Power Project, LAC's obligation should that off ramp be taken is ~\$1.2M, if the off ramp is not taken, that accrued liability would carry over to the next off ramp or future project obligations.

Highlights:

- * There is a significant increase of \$11,700,817 in cost for purchased power due to market projections of future power costs. These costs include the recently approved addition of the Uniper contract for 25MWs to start in the fall of 2022, as well as the Uniper contract for 15MWs of renewable energy. Budgets also include an additional 20,000 MWhs for Sandia Kirkland expected load forecasts.
 - * LANL Capital upgrades include the SCADA system and the new TA-3 Substation. Total costs for both projects is ~\$1.89 million.
- Increases in Dispatch Center expenses are primarily due to increases in wages as discussed in previous sections.
- * San Juan Operations budget decreases in FY 2023 due to closure of plant.
 - * Capital plans for FY2023 total \$145k. Projects include a diesel tank for the generator at the El Vado plant (\$85,000), and the extension of the concrete deck at the Abiquiu plant (\$60,000). FY2024 capital plans include upgrades to El Vado Controls, totaling \$500,000.
 - * There are no vacancies currently in Electric Production.
 - * \$16K is re-budgeted for plant wide LED lighting to be installed at both Hydro plants in the proposed budgets.
 - * Increases to station service expenses for El Vado is planned in FY2023 and FY2024 while the plant is down for the dam restoration project.

Gas

The NMMEAA deal guarantees a \$0.295/MMBTU discount, which is included in the budget for FY2023. Natural gas market prices remain uncertain, and gas purchases are budgeted at \$5.39/MMBTU in FY2023 including transportation (after the NMMEAA discount). This is based on market projections and include a 20% markup to avoid any revisions to the cost of gas budgets in FY2023. Excluding the cost of gas, O&M budgets for gas increased \$433,879 over FY2022.

Budgets presented in FY2022, predicted that increases to fixed costs for gas and service charges would be needed in FY2025. However, plans to spend down cash reserves in gas has accelerated much faster than anticipated due to increases in costs experienced in FY2021 and FY2022. An estimated 8% increase to these rates is included in the budget for FY2023 and FY2024. Currently the fixed cost of gas is \$0.23 per therm and \$9.50 for the monthly service charge, the proposed revisions to rates are \$0.248 per therm and \$10.26 in FY2023, and \$0.268 per therm and \$11.08 in FY2024.

Highlights:

- * Budgets for contractual services include on call assistance with main line maintenance, cathodic protection and PRV maintenance totaling \$42k in FY23. Budgets also include \$250k for contractual services for locating, marking, and replacing gas main valves approved by DPU in FY2022, as well as GIS upgrades of \$40k are planned.
- * Proposed FY2023 capital projects include the re-budgeted SCADA pressure sensing stations (\$375,000) and the Deacon Street project with the County Economic Development Department (\$85,000). SCADA pressure sensing station work continues in FY2024 (\$150,000).
- * Addition of one third of the proposed new FTE is included in salaries and benefit costs.
- * One (1) vacancy is included in labor costs, this position is in the GWS division and are split equally among the Gas, Water Distribution, and Wastewater Collection funds.

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 \$6.09M in projects funded with low interest Drinking Water State Revolving Loan funds and projects with the Economic Development and Public Works Departments of the County. Also included in the FY2023 CIP, is the repainting of Barranca Mesa Tank #2, which will be funded with ARPA funds appropriated by Council in January 2022.

The capital budget for water production and distribution continues to take advantage of the low interest rate financing available, and water sales appear to have stabilized more in line with the revised sales projections we adopted in FY18's budget cycle. However, rate increases are still needed to improve cash balances and meet target reserves for the utility. A projected 5% is forecasted for FY2023 and FY2024 for Water Production potable and non-potable rates, as well as Water Distribution rates. Additional projected rate increases are included in the 10-year forecast.

Highlights for Water Distribution

- * Include \$40k in other contractual services for GIS upgrades.
- * Budgets include \$50k for on call assistance with main line maintenance, as well as \$150K for valve locates, repairs and replacements in contractual services.
- * Budgeted in FY2023 and FY2024 is \$200k for meter change outs of approx. 1,200 meters.
- * Proposed FY2023 capital projects include phase one of the North Mesa distribution upgrades (\$871,594), and Deacon Street (\$212,775). Both projects are in conjunction with the Economic Development Department, totaling \$1,084,369.
- * FY2024 capital plan only includes the phase two of the Economic Development project for North Mesa distribution upgrades (\$871,594).

Highlights for Water Production

- * As in DW, included \$40k in other contractual services for GIS upgrades are presented in both proposed and projected budgets.
- * Continuation from FY2021, \$46k for on call assistance is planned in contractual services for transmission line maintenance, non-potable treatment system maintenance, and non-potable main and delivery line maintenance for both years presented. In addition, contractual services for well station maintenance, storage tank maintenance, and both WP and NP booster station maintenance is included in both years. These contract costs total \$307,000 annually.
- * Budgeted supplies for new control valves for wells and booster stations, and new pipeline valves are planned for transmission lines continuing in FY2023 and FY2024.
- * Also, in contractual services is \$50k for Contractor services to locate, mark, and if necessary, replace transmission line main valves for both proposed and projected years.
- * Budget includes \$50k in FY2023 for contractual services for a tabletop dam EAP in non-potable, and \$25K in FY2024.
- * Proposed FY2023 capital projects include the repainting of Barranca Mesa tank 2 (ARPA and DWSRL, \$1,200,000, re-budgeted), Rose Street (\$322,980), four MCC design, grades and replacements (\$2,727,000, DWSRL), TA-50/Pajarito Road transmission line replacement (\$1,210,485, DOE/LANL funded), NP Bayo Tank phase II (WTB \$950,000, DWSRL \$1,979,880, project total \$2,929,880), SCADA transition project (\$1,500,000), NP LA Canyon restoration planning and permitting (\$300,000, NMED RSP Grant), and phase two tank piping upgrades (\$450,000). As indicated, most of these projects depend on loan or grant funding and will only be executed if that funding is realized. All projects total \$10,740,345 for FY2024.

Wastewater Division

The O&M budget in the wastewater division decreased by \$140,659, or 3%. This decrease is largely in part to the delay in debt service for the White Rock Wastewater Treatment Facility. Loan repayments are not due until one year after the project is completed, pushing these debt service amounts out to FY24. Currently, Wastewater rates are proposed to increase by 2% for FY2023. The public hearing for this rate ordinance is scheduled for Council on February 22, 2022. These rate increases have been incorporated into budgeted revenues.

Highlights:

- * As in Gas and Water, both WP and DW, budgets include \$40k in other contractual services for GIS upgrades, and \$80K for on call assistance with main line maintenance, corrective, and preventative maintenance at both WWTFs. New contract costs for manhole locates, repairs, and replacements of \$100K, as well as \$65K for SCADA consultant services are planned for both years presented.
- * Supplies budgeted in FY2023 and FY2024 include \$75k for new pumps and MCCs, and \$271k for a new screen and large equipment replacements at the LA WWTP.
- * Proposed FY23 capital projects include Arkansas area backyard sewer mains & services repair and

replacement (\$269,000), Economic Development Deacon Street Project (\$418,686), Ridge Park sewer lift station elimination (\$300,000), Bayo Canyon sewer lift station elimination (\$1,200,000, CWSRL), re-budgeted from FY2022, and phase two of composting improvements (\$743,000). Total project costs of \$2,930,686.

Profit Transfer/ Budget Options

The Budget presented in attachments A - D and discussed above does not include projects proposed to be funded with Profit Transfer funds. A ten-year schedule of projected project recommendations is attached as Attachment E herewith. For FY2023, two projects are proposed to coordinate utilities infrastructure replacements with planned road construction along Arkansas and Rose St. Profit Transfer funding for FY2023 from sales totals \$1,099,466, and \$844,172 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

Not applicable.

Fiscal and Staff Impact

Explained in "Body" section.

Attachments

A - FY2023 & 2024 Fund Flows

B - Ten-Year Forecast FY2023 through FY2032

C - Ten-Year Revenues, Expenses, and Cash Balance Graphs FY2023 through FY2032

D - Ten-Year Capital Plan

E - Schedule of Funds FY2024 through FY2032

F - Five-Year Profit Transfer - Budget Option

G - Financial Guidelines Approved by BPU 8/17/16