

## Council Meeting Staff Report

March 15, 2017

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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>        | 8986-17        |

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### Title

Approval of Department of Public Utilities Budget for Fiscal Year 2018

### Recommended Action

**I move that the Board of Public Utilities approve the Department of Public Utilities Fiscal Year 2018 budget as presented and forward to Council for adoption.**

### Staff Recommendation

Staff recommends approval of Fiscal Year 2018 budget as presented.

### Body

Attached is the proposed budget for fiscal year 2018. The only changes from the February presentation are as follow.

- A budget summary by expenditure category has been added.
- Analysis of cash balance projections compared with financial policy targets has been added to the ten-year forecasts.
- A residential rate history has been included, as well as a summary of total customer's utilities costs projections compared to projected median household income incorporating planned rate adjustments and projected consumption quantities.
- All Funds: Administrative Allocation has been updated.
- All Funds: Vehicle IDCs were revised for all funds.
- EP FF: DOE Revenues adjusted after finalization of Power Pool budget, reduced by \$1,797,032.
- EP FF: Economy Sales Revenues adjusted after finalization of Power Pool budget, increased by \$381,341.
- EP FF: El Vado Generation now includes \$25,000 for a student & approx \$19,300 + benefits for double-fill.
- EP FF: Adjusted Load Control to include \$246,000 NERC CIP costs that were originally in FY18 but removed in previous proposed budget.
- EP FF: Added \$5000 back in to PNM Transmission costs; originally in FY18 but removed in previous proposed budget.
- EP FF: Purchased Power was adjusted closer to original FY18 budget; it is still lower, but higher than what was in February's proposed budget, increased \$1,394,592 to accommodate revised LANL load forecast.
- EP FF: Debt service was not entered in FY16 actuals.
- EP FF: Property/In lieu taxes were updated with correct # from Finance (lower than February), \$2,945 reduction.
- EP FF: Insurance had an error in Feb. version. At \$120k, it is \$40k lower than that version.
- EP FF: 2016 actual capital showed ED's capital. This has been corrected.
- EP FF: Adjusted cost of power/transfer from ED to match 24-month budget, reduced

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\$637,385.

- EP FF: Because Cost of Power and DOE Revenues were both adjusted downward, the MWH revenue projection dropped as well.
- ED FF: Re-analyzed revenue calculation and modified sales revenue projection upward slightly.
- ED FF: Vehicle IDC corrections were received from Finance, increased \$16,833.
- ED FF: In lieu taxes updated with correct # from Finance, increased \$15,807.
- ED FF: Adjusted cost of power after LAPP 24 month budget update, reduced \$637,385.
- GA FF: In lieu taxes updated with correct # from Finance, reduced \$2,625.
- WP FF: Potable sales revenue was adjusted after further analysis, increased \$264,500.
- WP FF: Interest on utility reserves was adjusted after further analysis, increased \$45,483.
- WP FF: Grant proceeds previously only showed FEMA reimbursement of \$562,400. WP also received four grant payments in March 2016: \$61,290, \$60,184, \$637,008, \$165,773.
- WP FF: \$2M from general fund for ski hill project was received in FY17. Remaining \$2M re-budgeted for FY18.
- WP FF: Sale of scrap was previously omitted from revenues.
- DW FF: Aspen School area waterline replacement project has been delayed a year, \$550,000.
- WW FF: Aspen School area sewer line replacement project has been delayed a year, \$150,000.

The remainder of this staff report is a re-presentation of the information distributed in February, with updates inserted as appropriate.

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Attached is the proposed budget for FY2018. The budget as presented is a reduction of 1% from less than one-half of one percent higher than the fiscal year 2017 budget, and a reduction of 5% 4.1% 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.

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## 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%~~, \$62k, or 2%, mostly in legal, procurement, and IT support. *(Note, the significant change in this item from what was reported in the preliminary discussion in February is due to a correction in how vehicles are shown. Last month vehicles were shown in IDC's in the FY18 budget column, and in the jobs in the FY17 budget column. This month that has been corrected to show vehicle charges in the same place, IDC's, for both years in the budget summary report, which was added for this presentation. Vehicles are still shown in the jobs in the individual fund flows budgets, since that is how they were originally budgeted in FY17).* Department admin costs increased by \$392k, or 9% ~~\$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 Production

The O&M budget for Electric Production is ~~\$1.9M~~ \$662k 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.

## 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.

## Gas

The new 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 \$3.0014/MMBTU (before the NMMEAA 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

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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 re-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**

The Board could elect to adopt this budget as presented, could remand to staff with direction to re-work per specific guidance provided, or could adjust individual line items or initiatives, including those adjustments in their motion to approve. A final budget needs to be approved by the Board in time to include in the County budget package going to Council in April, so any changes not made through motion this evening would require a special meeting be held to approve the budget before the deadline. The budget as presented incorporates all initiatives and guidance that has been enunciated by the Board and represents staff's recommendation for effective and efficient operations.

## **Fiscal and Staff Impact**

See above

## **Attachments**

A - Fiscal Year 2018 Budget Packet