

BOLINAS COMMUNITY PUBLIC UTILITY DISTRICT

BCPUD

BOX 390 270 ELM ROAD BOLINAS CALIFORNIA 94924

415 868 1224



MEMORANDUM

TO: BCPUD Board of Directors

FROM: The Finance Committee of the Board (directors Alexander Green and Walker)
BCPUD staff (Georgia Woods and Jennifer Blackman)

RE: Draft FY 2024-25 District Budget

DATE: April 16, 2024

This memorandum provides an overview of the draft FY 2024-25 district budget for your consideration. At the direction of the Finance Committee, staff has prepared an “**Option A**” draft of the FY 2024-25 budget, which proposes a 6% increase to the water service annual charge and a 6% increase to the sewer service annual charge, and an “**Option B**” draft of the FY 2024-25 budget, which proposes a 10% increase to the water service annual charge and a 10% increase to the sewer service annual charge. For the reasons stated in this memorandum, the Finance Committee recommends budget **Option B**,

The key difference between the alternative budgets Options A and B relates to the funding of two specific capital improvement/repair projects identified on the updated draft of the district’s Five Year Capital Improvement Plan (FY 2025-2029), as will be explained more fully below. The Option A and Option B budgets are otherwise identical. The highlights of the common provisions of budget Options A and B are as follows:

FY 2024-25 Draft Budget Highlights (Options A and B):

1. Operating Expenditures

Employee Services: the draft budget contains a proposed 8% increase in employee services costs which includes a 3% increase in employee wages (which is designed to keep up with the cost-of-living increase for the San Francisco Bay Area) and a 13% increase in employee benefits costs (including but not limited to a 14% increase in health insurance premiums and a 21% increase in required CalPERS unfunded liability payments).

Maintenance and Operations: the draft budget contains a proposed 18% increase in maintenance and operations costs to cover, among other things, an anticipated \$25,000 per year needed to cover portable office rental costs (i.e., a building for BCPUD staff to use pending the 270 Elm Road Building Replacement Project); rising insurance, legal, power, fuel, emergency repair project and tools costs; and increases in office expenses to modernize the district’s IT capabilities.

2. Debt/Capital Projects:

- a. *Debt:* The district’s debt position continues to improve due to the district’s early retirement of outstanding past debt and the pay-off of the Clean Renewable Energy Bonds (CREBs) in August 2023. The *only* outstanding debt on the district’s books is the state loan that financed the Terrace Avenue Water Main Relocation Project, for which the district pays \$30,400 annually (this loan is scheduled to be paid off in 2033).

- b. *Capital Projects*: the draft budget continues the district’s robust capital improvement planning and capital asset purchasing. Capital improvement spending is proposed to increase by \$52,000 (i.e., \$32,000 (water projects) + \$20,000 (sewer projects) and capital asset purchases are proposed to increase by \$25,000 to fund the replacement of a utility truck that has reached the end of its useful life. Note that \$40,000 of funds needed for the groundwater wells project will be covered by a transfer of the \$40,000 remaining in the Overflow Pipe Slip line Project reserve fund (this project was completed under-budget) and \$10,000 of the \$145,000 needed for sewer capital spending will be via a transfer from district reserves on deposit at the Local Agency Investment Fund (“LAIF”). Finally, the budget includes \$36,503 for the engineering and construction services needed for the Bolinas Beach Groin Repair Project (which will be funded by reserves already on deposit).
 - c. *Reserves*: The draft budget proposed a contribution of \$15,000 to the “hazardous tree” reserve fund this year. The Board generally seeks to maintain an \$18,000 fund available for emergency hazardous tree requests. At the present time, the district has approximately \$3,600 on deposit in this reserve fund. The draft budget also proposes contributions to the solar reserve fund to pay for inspection and maintenance costs -- \$10,000 (water) and \$5,000 (sewer).
3. Revenue.
- a. *Annual Metered Water Sales*: The draft budget anticipates that annual metered water sales will increase to \$90,000 during the FY 2024-25 as welcome rains have bolstered the district’s water supply and customers typically increase their water use following historically low use levels necessitated by extreme drought conditions.
 - b. *Annual Service Charges*: See next section.
 - c. *Taxes*: Based on FY 2022-23 receipts and current tax receipts thus far this year, the draft budget projects a 9% increase in tax revenue to the district for FY 2024-25; as such, total tax revenue for the water and sewer enterprises is estimated at \$587,701.
 - d. *Other Income*: The draft budget includes \$82,180 in estimated interest income, which is a significant increase over past years, because interest earnings have improved significantly in recent years: as of December 31, 2023, which is half-way through the fiscal year, the district has earned \$43,441 in interest income.
 - e. *Reserve Spending*: As noted above in Section 2(b), the draft budget proposes to transfer \$10,000 on deposit in the district’s reserve fund at the LAIF to help pay for increased sewer system capital improvement spending.

Key Differences between Draft Budget Options A and B:

The key difference between the alternative budget Options A and B relates to the funding of two specific capital improvement/repair projects as identified on the updated draft of the district’s Five-Year Capital Improvement Plan (FY 2025-2029): the Radial Gate Rehabilitation/Replacement Project (water) and the Manhole Rehabilitation/Replacement Project (sewer).

Radial Gate Rehabilitation/Replacement Project: Draft Budget Option A contemplates that the district will collect funds to cover the cost of assessing the condition of the radial gate (\$27,000) (a water system

project), and will defer collecting funds to pay for the radial gate improvements/repairs identified in the assessment until the following fiscal year. In Draft Budget Option B, the draft budget proposes to collect an additional \$40,000 toward those identified radial gate improvements/repairs.

Manhole Rehabilitation/Replacement Projects: Draft Budget Option A also contemplates that the district will expend \$10,000 in reserves on deposit in the LAIF to help pay for the scheduled Manhole Rehabilitation/Replacement Projects (sewer). In Option B, the draft budget proposes to collect an additional \$10,000 toward these projects rather than draw down reserves.

Different Impacts on the Proposed Annual Service Charge of Budget Options A and B:

Draft Budget Option A: Draft budget Option A proposes increases to the district's annual service charges by 6% for both water and sewer enterprises. For water customers, this would be an increase of \$102 per year, so the annual service charge would increase from \$1,696 to \$1,798. For sewer customers, this would be an increase of \$101 per year, so the annual residential service charge would increase from \$1,679 to \$1,780, and the annual commercial service charge would increase from a range of \$1,704 - \$2,129 to \$1,805 - \$2,230. The septic/drainage annual service charge (\$35) is not proposed to increase.

Draft Budget Option B: Draft budget Option A proposes increases to the district's annual service charges by 10% for both water and sewer enterprises. For water customers, this would be an increase of \$170 per year, so the annual service charge would increase from \$1,696 to \$1,866. For sewer customers, this would be an increase of \$168 per year, so the annual residential service charge would increase from \$1,679 to \$1,847, and the annual commercial service charge would increase from a range of \$1,704 - \$2,129 to a range of \$1,805 - \$2,230. The septic/drainage annual service charge (\$35) is not proposed to increase.

Finance Committee Recommendation - Budget Option B:

The Finance Committee recommends that the Board proceed with draft budget Option B, which proposes to increase water and sewer rates by 10% each and is modestly more aggressive than Option A with regard to funding the district's needed capital improvement projects. While the 10% increase in proposed annual service charges is more than contemplated in draft budget Option A (i.e., 6%), the revenue that will be generated as a result remains less than what the district needs to fund clearly needed capital improvement projects. To illustrate this point, during a Finance Committee meeting on April 1, 2024, the committee asked staff to prepare three alternative budgets for the committee to consider at its April 15, 2024 meeting:

- (1) the budget as presented to the committee at that time, with 5% annual service charge increases (subsequently revised to 6% increases), which implicitly assumes the district will need to seek outside grant funding and/or financing to cover most of the future costs of planned capital improvement projects;
- (2) a second version of the budget with more of the anticipated capital costs included up front, which the Committee anticipated would require a much more significant increase in the annual service charges, but which also implicitly assumes the district will need to rely on outside grant funding and/or financing (but less than the first scenario) to fund future capital improvement costs; and
- (3) a third version of the budget which removes the implicit assumption that the district will seek outside grant funding and/or financing of future planned capital improvement projects and assumes the district will self-finance its currently scheduled capital improvements; the Committee wanted to

understand the magnitude of impact to the annual service charges. The table below presents a comparative summary of this exercise.

Summary Table
Impact of Alternative Budgets on Annual Service Charges

District Budget	Current	Option A: 6%	Option B: 10%	Alt - 1: 41%; 75%	Alt - 2: 130%; 277%
Annual Water Service Charge	\$ 1,696	\$ 1,798 6%	\$ 1,866 10%	\$ 2,391 41%	\$ 3,901 130%
<i>Increased by</i>		\$ 102	\$ 170	\$ 695	\$ 2,205
<i>Equivalent Monthly Costs</i>	\$ 141.33	\$ 149	\$ 156	\$ 199	\$ 325
Annual Sewer Service Charge	\$ 1,679	\$ 1,780 6%	\$ 1,847 10%	\$ 2,938 75%	\$ 6,329 277%
<i>Increased by</i>		\$ 101	\$ 168	\$ 1,259	\$ 4,650
<i>Equivalent Monthly Costs</i>	\$ 139.92	\$ 148	\$ 154	\$ 245	\$ 527
CIP Budget					
Water		\$ 252,000	\$ 292,000	\$ 562,120	\$ 1,323,995
Sewer		\$ 145,000	\$ 145,000	\$ 325,000	\$ 875,000
*Alt - 1 Commercial Sewer would increase between \$2,938-5,067					
*Alt - 2 Commercial Sewer would increase between \$6,354-6,779					

The Summary Table is also reproduced in a larger format on the next page.

In light of the magnitude of the impact on annual water and sewer service charges that would be required for either the two alternative budget scenarios as depicted above, the Committee does not recommend the district consider them. Instead, the Committee recommends that the district embark on an effort during FY 2024-25 to identify and pursue outside grants and/or loan financing to fund the great majority of the district’s capital improvement projects. Staff reports that a meeting already has been scheduled for this purpose next month with a representative of the Rural Community Assistance Corporation (“RCAC”). Staff also advises that during a recent capital improvement planning webinar hosted by the RCAC, the RCAC presenter indicated that it is standard for small rural utility district like the BCPUD to plan that 75% - 85% of its capital improvement project costs will be funded by grants (which can be very difficult to identify and apply for, so RCAC cautions against counting on them) and/or loan financing.

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