



Council Agenda Report

From: Ryan Cornell, Finance Manager

Subject: FY 2018-19 and 2019-20 Enterprise Funds Budget Update

Date: May 15, 2018

Facts

1. The Fiscal Year (FY) 2016-17 and 2017-18 Operating and Capital Budget (Budget) for all funds was approved by City Council on June 21, 2016. The FY 2017-18 Budget was updated and approved by City Council on June 20, 2017.
2. The City is required to adopt an Operating and Capital Budget for the FY 2018-19 no later than June 30, 2018.
3. On February 17, 2018, the City Council held a Visioning and Goal-Setting Workshop that provided Councilmembers, the public, and staff a variety of opportunities to provide input and to fully participate in the development of the vision and goals for the City.
4. On March 6, 2018, City Council held a follow-up discussion of the workshop outcomes, in order to obtain additional public input and finalize City goals and strategic initiatives.
5. This budget update report focuses solely on the Enterprise Funds, specifically, the water, wastewater and airport operations. It includes the forecasts for both revenues and expenditures, the traditional first step in the City's budget process. It allows City Council the opportunity to ask for additional information and provide direction.
6. Due to the complexity of the City's financial statements and budgets, staff felt it was important to segregate different aspects of the budget into smaller components to better explain its operations and individual challenges. As a result, staff presented General Fund Budget Update to City Council on May 7, 2018. On June 5, 2018, staff anticipates to report and present recommended capital improvements over the next five years as well as recommended service level options for Council consideration.
7. The final FY 2018-19 and 2019-20 Budget document, based on Council direction at each of the prior meetings, will be scheduled for Council consideration, approval, and adoption at the June 19, 2018 Council meeting. It will contain all projected revenues, appropriations, and transfers, and shall be implemented by the City Manager per Council policies and direction.

Analysis and Conclusions

The City's Biennial Budget provides funding for all City services, infrastructure investments, and activities performed during the year. Specifically, this report focuses on the Enterprise Funds of the City which includes the Water, Wastewater and Airport operations.

Water Fund

The City of Paso Robles owns and operates approximately 174 miles of waterlines, four storage facilities, and seven booster stations to distribute drinking water throughout the City. The City's water supply system includes 20 wells that pump groundwater, Salinas River underflow, and surface water from Lake Nacimiento.

The City's Water Fund is used to account for the operations and maintenance of the City's water supply system, including water production, transmission, distribution and conservation system. The Water Fund has a projected total annual operating expense of \$11.9 million for the 2017-18 fiscal year.

The City last completed a comprehensive financial evaluation of its water utility rates in October 2015 and, as a result of that study, water rates established a combined fixed charge and consumption base charge. Beginning on January 1, 2017, water rates increase each year for five years as follows:

<u>Beginning January 1</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Flat Rate	5.00	6.25	7.50	8.75	10.00
Per 748 Gallons	4.83	5.26	5.73	6.14	6.56

This comprehensive study serves as a blueprint for the budget process and gives the City the ability to compare actual events with projected. Furthermore it is used to ensure that the current rates will be able to meet current operational costs, debt service coverage, and ending reserve needs. The Water Fund, including the Water Connection Fee Fund, is anticipated to have a fund balance of \$3.9 million at June 30, 2018 whereas the rate study had anticipated this amount to be \$5.1 million. The reason for this variance is two-fold: first, connection fee revenues are not meeting originally anticipated amounts because of construction units continuing to lag behind demand and due to a decrease in connection fee charges. The latter was an intentional decision and the cost to supply future development is not as much as it was when this rate study was conducted. Secondly, the State water reduction mandates imposed on the City during the 2016 drought had major impacts on the consumption of water and its sale of water. Although water revenues have increased by 31% in FY 2017-18 when compared to FY 2016-17, the system is still making up for lost revenue.

In preparation of the debt financing needed to construct the 21st Street Reservoir Project, City staff, with the assistance of NHA Advisors, conducted another comprehensive study based on the approved utility rates, more accurate depiction of connection fee revenues and operating and capital expenditures needs in February 2018. The model of that analysis, which concluded adequate debt service coverage, is consistent with the proposed spending plan of the Water Fund.

	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>
	<u>Actual</u>	<u>Projected</u>	<u>Proposed</u>	<u>Proposed</u>	<u>Forecast</u>	<u>Forecast</u>
REVENUES						
Water Sales	\$ 9,994,956	\$13,138,027	\$13,850,000	\$14,633,000	\$15,444,000	\$16,184,000
Water Connection Fees	1,629,780	942,904	1,000,000	1,000,000	1,000,000	1,000,000
Fines and Penalties	252,390	284,141	278,000	278,000	278,000	278,000
Service Installation	12,969	25,500	20,000	20,000	20,000	20,000
Use of Money and Property	15,472	30,205	25,000	25,000	25,000	25,000
Other Revenues	12,170	-	-	-	-	-
Total Revenues	11,917,737	14,420,777	15,173,000	15,956,000	16,767,000	17,507,000

As presented above, water sales revenue is anticipated to increase by 5% of the next four years due to the rate increases already adopted, and growth in water users, with all other revenues staying consistent.

	FY 2016-17 Actual	FY 2017-18 Projected	FY 2018-19 Proposed	FY 2019-20 Proposed	FY 2020-21 Forecast	FY 2021-22 Forecast
EXPENDITURES						
Utility Billing						
Personnel Services	270,344	276,943	227,160	235,400	246,320	252,920
Operating Expenses	225,795	229,528	252,400	270,400	276,400	282,400
Capital Outlay	-	-	25,000	25,000	25,000	25,000
Water Production						
Personnel Services	1,724,631	1,514,581	1,341,680	1,382,960	1,420,600	1,442,740
Operating Expenses	7,743,590	8,204,196	8,736,700	8,808,900	8,356,900	8,430,900
Debt Service	9,373	9,373	9,400	9,400	1,079,400	1,079,400
Capital Outlay	430,779	60,998	-	-	-	-
Water Treatment						
Personnel Services	527,694	427,833	597,360	608,540	620,190	632,130
Operating Expenses	519,427	475,235	1,078,000	1,078,000	1,100,500	1,100,500
Capital Outlay	22,500	-	-	-	-	-
Water Conservation						
Personnel Services	216,919	164,527	236,780	237,630	242,070	246,660
Operating Expenses	80,647	50,732	155,000	155,000	155,000	155,000
Interfund Transfers Out	524,977	533,849	820,500	820,500	820,500	820,500
Total Expenditures	12,296,676	11,947,795	13,479,980	13,631,730	14,342,880	14,468,150

Operating expenditures are anticipated to be consistent with Water Production comprising 80% of the total expenditures incurred by the Water Fund (which is where the cost for the Nacimientto Water Project is reported). It is anticipated that the cost for the Nacimientto Water Project, including the routine and non-routine operations and maintenance, capital project costs, and debt service payment to be \$5.2 million in FY 2017-18 and increase to \$5.5 million in FY 2018-19.

There are seven capital projects that have been previously discussed and/or included in the Water Master plan and is summarized below. The total cost of capital projects in FY 2018-19 is estimated to be \$9.2 million and \$5.0 million in FY 2019-20.

- 1) Airport Water Lines: One the goals identified at the beginning of the 2017-18 fiscal year was the need to expand infrastructure including street, water, and sewer lines near the airport primarily on Dry Creek Road. This project would add waterlines to Dry Creek Road as well as Beacon to Tower Well. Estimated Cost: \$1.95 million.
- 2) Annual Pipeline Replacement: This is an annual capital maintenance program that replaces water pipes to improve fire flow, reliability, and provide for growth as outlined in the Water Master Plan. Specifically, in FY 2018-19, City staff is recommending waterline replacement on Spring Street from 24th Street to 36th Street. Estimated Cost: Approximately \$2.0 million.
- 3) Private Well/Meter: Established in the 2016-17 and 2017-18 Biennial Budget, this project is related to the Sustainable Groundwater Management Act (SGMA) compliance and consists of the installation of meters at private well sites. Estimated Cost: \$65,000. This object was put on hold until the Groundwater Sustainability Plan (GSP) is completed and submitted to the State DWR (which will be January 2020). The GSP may or may not lead the City to metering private wells.
- 4) Water Tank Coating: This is an annual capital maintenance program that performs maintenance such as recoating on the water reservoirs. Estimated Cost: \$42,000 annually.
- 5) 21st Street Reservoir: Design of the construction of a new (replacement) four million gallon reservoir is currently being conducted. This project includes the removal of the existing reservoir on 21st Street and construction of a new reservoir. This reservoir provides emergency, fire and operational storage for the west-side of the City. Estimated Cost: \$8.9 million to be financed through an issuance of debt.
- 6) Well Rehabilitation and Repair: This is an annual capital maintenance program that performs various maintenance on existing wells due to normal wear and tear. Specifically, replacements of motors, pumps, columns, oil tubes, shafts, etc. are included in this project as well as swabbing,

scrubbing and chemical treatments on City wells. Estimated Cost: Approximately \$275,000 annually.

- 7) New Wells/Well Replacements: Depending on the results of the feasibility study, this project will either replace the Dry Creek and Sherwood Wells or drill a new well at Meadowlark. Estimated Cost for the study: \$350,000. Construction costs can be upwards of \$1.6 million, and we will have better costs estimates after study is completed. Construction is anticipated to begin in FY 2020-21 to FY 2021-22.

Wastewater Fund

The City of Paso Robles owns and operates approximately 140 miles of wastewater pipelines supported by 14 sewer lift stations. These convey raw sewage to the City’s 4.9 million gallon per day wastewater treatment plant. The City completed a \$47.2 million upgrade of the plant in Spring 2016. The City is now in construction of \$14.4 million Tertiary Treatment Facilities, which will enable the City to produce high quality recycled water for irrigation use in east Paso Robles.

The City’s Wastewater Fund is used to account for the operations and maintenance of the City’s sewer system, including storm water management, industrial pretreatment, commercial and residential waste collection, and treatment. In addition, it is anticipated that by the beginning of 2019, the treatment facility will be able to produce and distribute recycled water throughout the City and surrounding areas. The Wastewater Fund has a projected total annual operating expense of \$9.3 million for the 2017-18 fiscal year.

The last time the City performed a Wastewater Rate and Revenue Analysis was in November 2011; based on that rate study, the Council approved a program of annual rate increases from July 1, 2012 through July 1, 2016. Wastewater rates need to reviewed and analyzed in order to meet the ongoing debt service requirements from the new construction at the treatment plant as well as to properly fund the distribution of recycled water. City staff has incorporated in the next two-year budget cycle, a request to conduct an update to the Wastewater Collection System Master Plan (a capital improvement plan), and then a Wastewater Rate Study. These plans will be critical to the future viability of the wastewater system.

	FY 2016-17 Actual	FY 2017-18 Projected	FY 2018-19 Proposed	FY 2019-20 Proposed	FY 2020-21 Forecast	FY 2021-22 Forecast
REVENUES						
Charges for Services	\$ 8,762,233	\$ 9,343,142	\$ 9,506,000	\$ 9,551,000	\$10,567,000	\$12,191,000
Fines and Penalties	35,794	38,658	35,000	35,000	35,000	35,000
Use of Money and Property	20,300	33,275	25,000	25,000	25,000	25,000
Other revenues	6,407	12,027	5,000	5,000	5,000	5,000
Interfund Transfers In	-	14,727	-	-	-	-
Total Revenues	8,824,734	9,441,829	9,571,000	9,616,000	10,632,000	12,256,000

Because sewer rates have not increased since July 2016, revenues for the Wastewater Fund are not projected to increase significantly over the next two years. A history of actual and projected revenues are presented above. It is anticipated that the sale of recycled water will begin in part in FY 19-20 and increasing thereafter. Also included in the revenue forecast is the reimbursement from Templeton CSD to discontinue in FY 19-20. Currently Templeton CSD reimburses the City for a portion of the operating and maintenance costs as well as debt service on the treatment facility loan because the City treats a portion of the wastewater from Templeton. Templeton CSD is constructing new pipelines and pump stations that will enable it to disconnect from City sewer service. These facilities are anticipated to be completed in June 2019.

As shown above, the City is anticipating approximately \$9.5-\$9.6 million in wastewater charge for services over the next two fiscal years.

In FY 2020-21, it is anticipated that the City will begin to sell recycled water and bring in an additional \$1.0 million and increase to \$4.0 million in charges when fully operational. These charges will directly pay for operational, maintenance and debt of the recycled water treatment and distribution. A detailed business plan will need to be conducted on this function alone and will be presented to City Council in the upcoming year.

In addition to the recycled water, the residential and commercial wastewater rates will need to be reviewed. This analysis is critical to the solvency of the Wastewater Fund.

	FY 2016-17 Actual	FY 2017-18 Projected	FY 2018-19 Proposed	FY 2019-20 Proposed	FY 2020-21 Forecast	FY 2021-22 Forecast
EXPENDITURES						
Utility Billing						
Personnel Services	244,645	275,097	227,160	235,400	246,320	252,920
Operating Expenses	227,241	218,856	254,700	269,200	269,200	269,200
Capital Outlay	-	-	15,000	15,000	15,000	15,000
Stormwater Management						
Personnel Services	249,027	219,347	224,250	225,200	228,940	232,820
Operating Expenses	54,866	36,523	120,800	82,700	90,000	90,300
Debt Service	1,562	1,562	1,600	1,600	1,600	1,600
Sewer Collection						
Personnel Services	1,001,876	816,026	830,090	857,400	881,150	905,990
Operating Expenses	490,479	476,008	392,700	351,200	359,700	368,200
Debt Service	6,249	6,249	6,250	6,250	6,250	5,250
Capital Outlay	27,242	-	58,500	61,000	64,000	67,000
Sewer Treatment						
Personnel Services	1,553,609	1,348,448	1,610,580	1,655,240	1,707,670	1,752,690
Operating Expenses	1,991,273	1,790,996	1,833,000	1,734,000	1,800,700	1,860,100
Debt Service	2,929,347	3,190,354	3,182,575	3,401,975	3,395,975	3,401,975
Capital Outlay	5,389	119,833	-	-	-	-
Source Control						
Personnel Services	296,879	224,062	230,070	230,980	234,700	238,550
Operating Expenses	62,354	14,003	111,400	113,000	114,600	116,200
Recycled Water Distribution						
Personnel Services	-	-	-	225,000	250,000	275,000
Operating Expenses	-	-	-	115,000	230,000	250,000
Debt Service	-	-	-	-	688,000	688,000
Interfund Transfers Out	548,376	501,209	655,000	655,000	655,000	655,000
Total Expenditures	9,690,414	9,238,573	9,753,675	10,235,145	11,238,805	11,445,795

Wastewater Fund expenditures are anticipated to be consistent and increasing by 2% per year over the next four years with 73% of the total expenditures related to Wastewater Treatment, 14% related to Wastewater Collections, and the remaining 13% of the costs relates to utility billing, storm-water management, and the industrial waste programs. Total appropriations for FY 18-19 is \$9.8 million and \$10.2 million for FY 19-20.

There are nine capital projects that have been previously discussed and/or included in the Wastewater Collection Master Plan and are summarized below. The total cost of capital projects in FY 2018-19 is estimated to be \$4.7 million and \$16.3 million in FY 2019-20:

- 1) Updated Wastewater Collection System Master Plan: As previously discussed, the existing master plan is 11 years old and must be updated to determine new sewer projects needed to serve planned new development. This plan will include development of a map-based hydraulic model

of the sewer system to identify sections of the sewer system with capacity deficiencies. The plan will also include analysis of existing system condition and a strategy for infrastructure renewal and is a prerequisite for a new sewer rate study. Estimated Cost: \$150,000

- 2) Sewer Rate Study: The City needs a new and comprehensive sewer rate study by a professional firm to ensure charges for sewer services are adequate to cover new and ongoing debt obligations, planned capital expenditures, and operation and maintenance expenses, including for new recycled water facilities. The sewer rate study will form the basis of adjustments to sewer rates, if any. Estimated Cost: \$100,000
- 3) Airport Sewer Expansion: One of the goals identified at the beginning of the 2017-18 fiscal year was the need to expand infrastructure including street, water and sewer lines near the airport primarily on Dry Creek Road. The sewer project not only includes expansion of wastewater lines but also the replacement of Lift Station No. 6 and a new regional lift station at the Erskine Commercial Tract. Total cost: \$4,845,000 to be completed in two phases over two years.
- 4) 32nd Street Relief Sewer: New 10-inch sewer line on 32nd Street between Spring Street and Park Street to relieve a bottleneck in the sewer system. Total cost: \$338,000
- 5) Almendra Sewer Project: Additional sewer pipeline installation from Almendra Court to Arciero Way with the elimination of Lift Station No. 14. Total cost: \$382,000.
- 6) Rehabilitate and Replace Various Old Sewer lines and Manholes: Ongoing capital maintenance project typically associated with street repair and improvements. Annual costs approximately: \$882,000 with annual escalations.
- 7) Lift Station Rehabilitation: Ongoing capital maintenance project used to upgrade obsolete pumps, rails, and motors. Annual cost approximately: \$88,500 with annual escalations.
- 8) Tertiary Treatment Facilities: Project is related to Recycled Water. Specifically, the costs of this project will cover flow equalization, cloth filtration, UV disinfection, and recycled water storage pond and pump station. Project costs incurred in FY 2017-18 with an additional \$2.5 million needed to be complete the Project in December 2018. Project is 100% funded through issuance of debt with the State Revolving Fund with an additional loan forgiveness grant of \$4 million.
- 9) Recycled Water Distribution System: With the completion of the Tertiary Treatment Facility, distributing the recycled water is the next phase of the recycled water program. Specifically, a purple pipe distribution system, including elevated reservoir, to deliver recycled water to east Paso Robles for irrigation. Total Cost: \$16.9 million to be funded 100% through the issuance of debt with the State Revolving Fund. Staff is anticipating a loan forgiveness grant for this project, as well.

In addition, there are two projects being funded through an issuance of debt: the Tertiary Treatment Facility for \$14.4 million (debt proceeds being incurred in FY 17-18) and the Recycled Water Distribution System for \$16.9 million. Both are essential to the recycled water project.

Airport Fund

The City owns and operates a general aviation airport that is one of only 5% of airports in the United States that are not subsidized by the host city or county's General Fund. The airport is home to more than 190 aircraft and several businesses. The airport is also home to a California Highway Patrol base and a CAL FIRE aircraft base, serves a number of events each year, and is used extensively by the military.

The City's Airport Fund is used to account for the operations and maintenance of the airport system. The Airport Fund has a projected total annual operating expense of just over a half million dollars for the 2017-18 fiscal year.

	FY 2016-17 Actual	FY 2017-18 Projected	FY 2018-19 Proposed	FY 2019-20 Proposed	FY 2020-21 Forecast	FY 2021-22 Forecast
REVENUES						
Charges for Services	219,478	120,751	120,000	120,000	120,000	120,000
Property Taxes	53,749	53,061	50,000	50,000	50,000	50,000
Use of Money and Property	619,012	636,999	717,500	742,500	764,500	786,500
Other revenues	214	188	-	-	-	-
Total Revenues	892,453	810,999	887,500	912,500	934,500	956,500
EXPENDITURES						
Personnel Services	194,186	190,337	221,280	228,450	233,590	238,840
Operating Expenses	182,119	173,280	212,200	213,700	216,200	217,700
Debt Service	62,044	54,151	54,200	54,300	54,300	54,200
Interfund Transfers Out	118,388	94,835	135,000	135,000	135,000	135,000
Total Expenditures	556,737	512,603	622,680	631,450	639,090	645,740
Operating Surplus/(Deficit)	335,716	298,396	264,820	281,050	295,410	310,760

The airport operating revenues are consistent over the forecast period. Charges for services includes fuel flowage fees and landing ties, and is estimated to be \$120,000 each year. The primary revenue source for the Airport comes from rental income from leasing aircraft hangers and other pieces of property to users (reported as 'Use of Money and Property'). The City is anticipating a 12% increase in lease income due to the addition of a Verizon cell tower and the solar farm. Those two additional sources will bring in revenues of approximately \$70,000 per year.

Personnel services include the cost of one Airport Services Coordinator and one Half-Time Maintenance Worker. The majority of operating expenditures are simply the cost of utilities, building repair and maintenance, and the costs related to number of community events including the Aircraft Owners and Pilots Association (AOPA) Fly-In event. The inter-fund transfer of approximately \$135,000 is related to the overhead costs from City's General Fund services such as finance, payroll, human resources and information technology.

The Airport incurs debt payments of approximately \$54,000 per year and is related to the loan agreement with the State of California's Department of Transportation for the Airport Fuel Facility Project. This 17-year loan began in January 2015 and had a loan balance of approximately \$520,000 at June 30, 2017.

During the 2016-18 Biennial Budget, City Council approved four capital projects. The status of the existing projects are as follows:

- 1) Airport Taxiway B, C, D & E Rehabilitation (C0021): On September 20, 2016, the City Council awarded a contract to Papich Construction in the amount of \$1.8 million to rehabilitate the taxiways mentioned above as well as a contract with Tartaglia Engineering in the amount of \$328,000 for project staking, construction management and FAA compliance monitoring. This project is near completion.
- 2) Propeller Drive Extension (C0080): This project was approved during the previous Biennial Budget and monies in the amount of \$1.2 million were appropriated to perform the preliminary design of street alignment and drainage improvements to connect the north-side facility with airport streets. The preliminary scoping work and drainage evaluation are underway. Staff is anticipating the formal design phase (\$200,000) to be started in FY 2018-19 and construction (\$800,000) in FY 2020-21. As a result, the capital project expenditures are shown as zero in FY 2017-18 (as displayed above) and budget reallocated in the respective years.

- 3) Ramp Resurfacing Project (C0081): This project was approved during the previous Biennial Budget and monies were appropriated to remove and replace a section of failed concrete near the aircraft-parking apron. Approximately 25% of the appropriation has been spent to-date with the completion of the project by the end of 2018.
- 4) 4860 Wing Way (C0082): Approved during the previous Biennial Budget, monies were appropriated to rehabilitate existing City-owned hangar including the removal of asbestos hazards and the installation of fire sprinklers. This project is underway, with only the asbestos removal and sprinkler installation remaining to be completed.

Fiscal Impact

There is no fiscal impact, as this report is for presentation and reporting purposes only. It is anticipated that the City Council will formally adopt the FY 2018-19 and 2019-20 Operating and Capital Project Budget on June 19, 2018.

Recommendations

Receive and file this report and provide and desired direction on the preparation of the FY 2018-19 and 2019-20 Budget.

Attachments

None.