



Proposed Mid-Cycle Budget Update for Fiscal Year 2022-23

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Presentation Topics

Economic Update

- Inflationary Pressures
- Efforts to Mitigate Inflationary Pressures

Biennial Budget Update

- FY 2021-22 Revenue and Expenditure Trends
- FY 2022-23 Proposed Operating and Non-Operating Revenue and Expense Adjustments
- Wages and Benefits Summary
- Operating Fixed Asset (OFA) Budget
- Capital Improvement Program (CIP) Budget
- Summary of Proposed FY 2022-23 Budget Adjustments

Next Steps and Recommendation

- 2022 Cost of Service and Rate Study
- Long-Term Financial Plan
- Biennial Budget (FY 2023-24 & FY 2024-25) Timeline



Economic Update



Economic Risks and Recession Indicators

- U.S. economy currently experiencing several shifts
 - Pullback of government support to U.S. economy
 - Consumer purchasing habits changing
- Growing concerns of recession as indicators grow

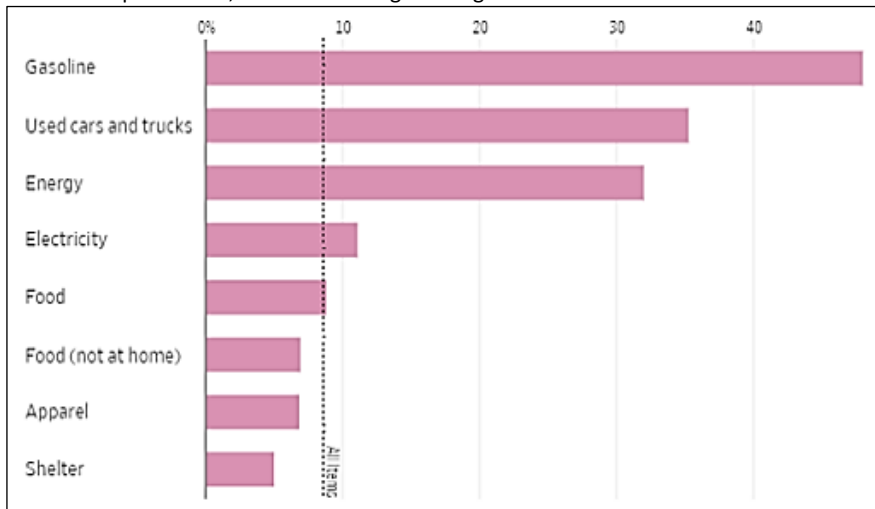


Impacts to EMWD

- Operating Fixed Asset and Capital Improvement Program projects are being delayed and experiencing significantly increased costs
- Inflation has grown exponentially due to pressures on both supply and demand sides of the economy
 - Increases to energy, fuel, chemicals, equipment, and labor costs

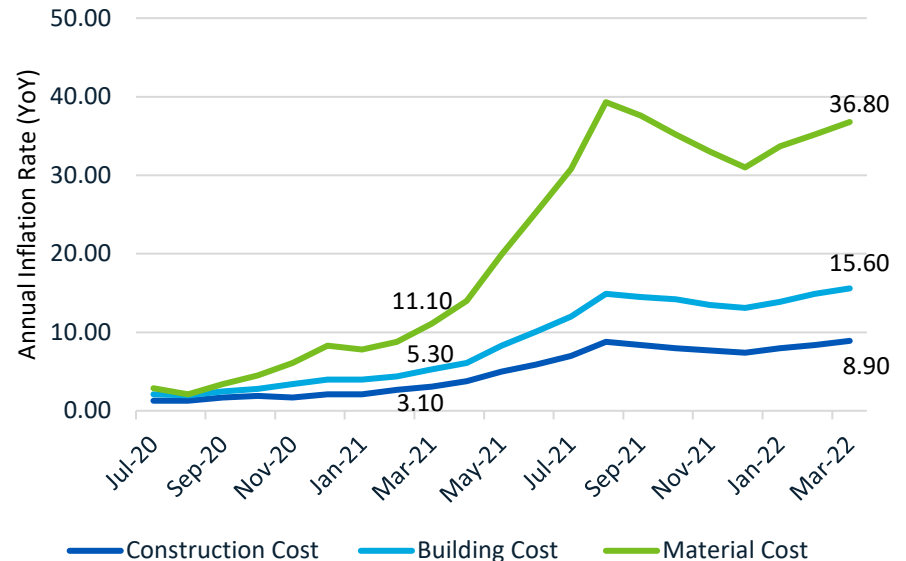
Inflation Accelerated to 8.5% in March as Oil Prices Soared

Consumer-price index, 12-month change ending in March 2022



Source: Labor Department

Construction/Building/Material Costs



Efforts to Mitigate Inflationary Pressures

- Refining CIP to prioritize projects and evaluate scope (i.e., needs vs. wants)
- Evaluating early payments to contractors for materials and equipment to lock in current prices to avoid cost increases
 - Pipe and steel products to be paid upon receipt of paid purchase order
- Sourcing of additional/alternate suppliers for materials, inventory, and fuel
 - Sulfuric acid injection system to be installed at PWFPP will provide alternate to citric acid and reduce consumption of highly constrained chemical
- Advancing water supply reliability projects to mitigate impacts of rising costs for purchased water
 - Additional chlorination facilities and adjusting distribution system operations to maximize production from the filter plants



Efforts to Mitigate Inflationary Pressures (continued)

- Increased stock of critical supply items in warehouse and treatment plants
 - Purchase of additional spare pumps, such as critical sewer lift station pumps and well pump assemblies
- Increased solar production through EMWD Solar Projects (Phases 1 – 3)
 - Sale of Renewable Energy Credits over next three years
- Efficient management of labor vacancy rate and conservative budgeting
- Proactive investment and debt portfolio management

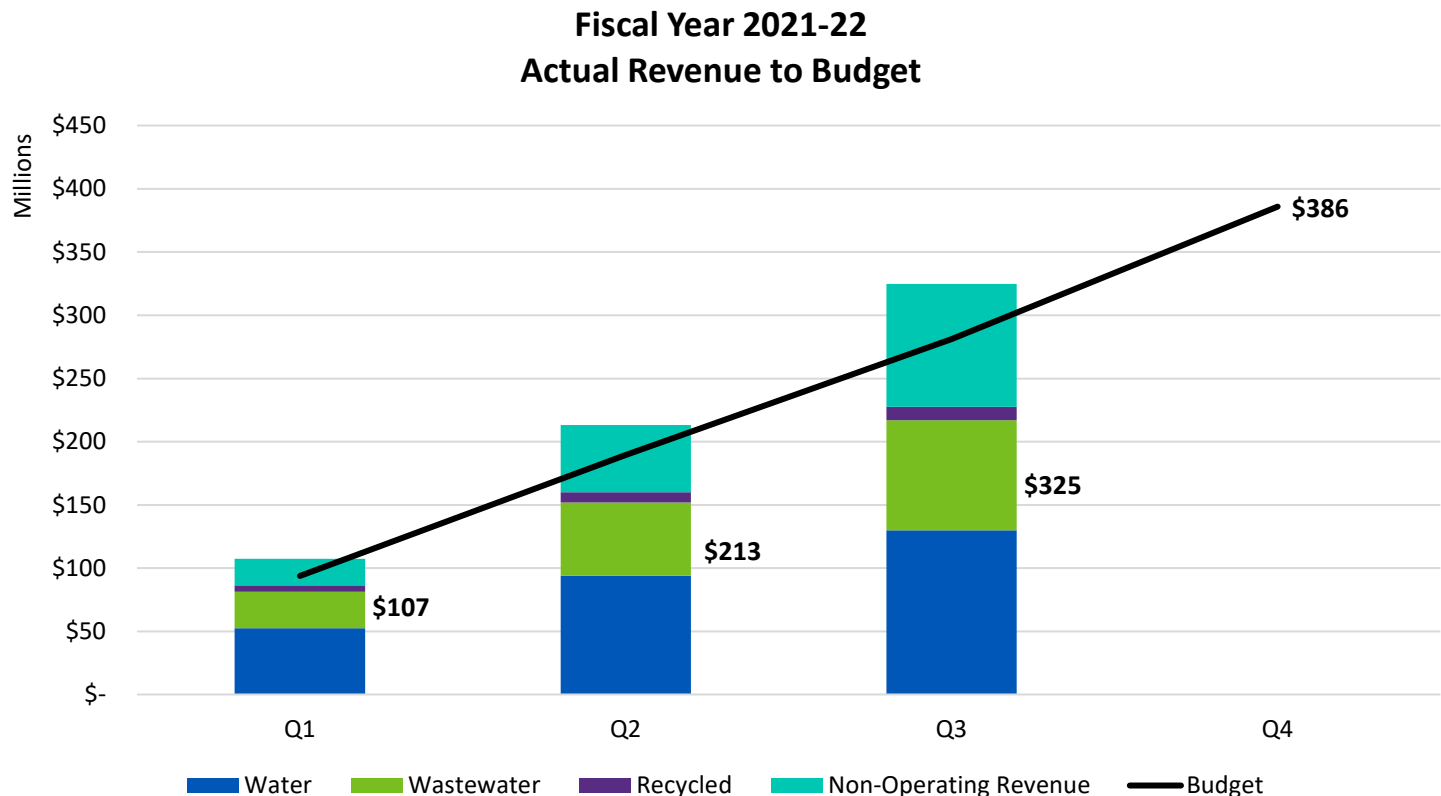




Biennial Budget Update

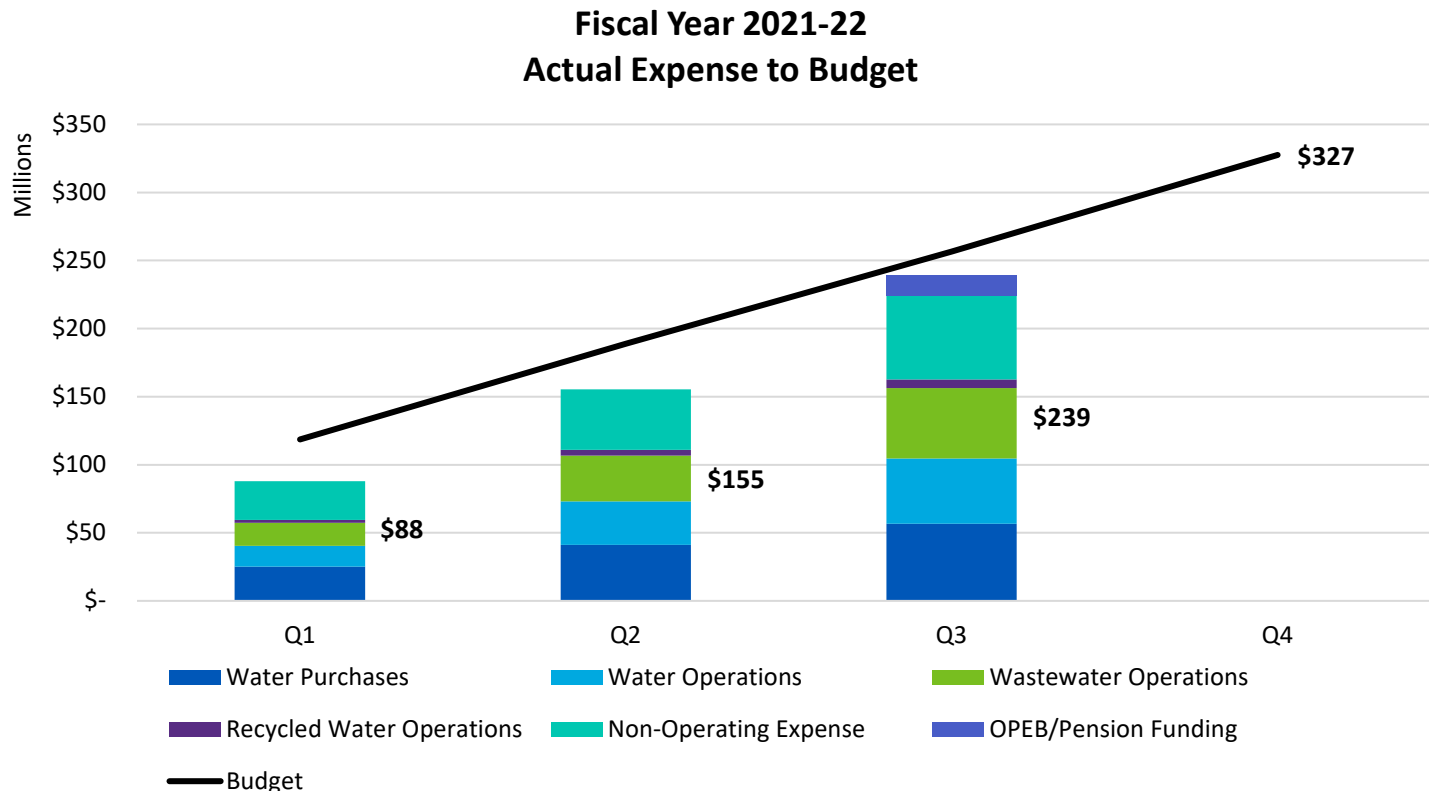
FY 2021-22 Budget Review – Total Revenue

- Budget forecast reviewed at 2nd Quarter (mid-year) indicated revenue was trending higher than budget target
- Through the 3rd Quarter, total revenue remains higher than target (15.6%)



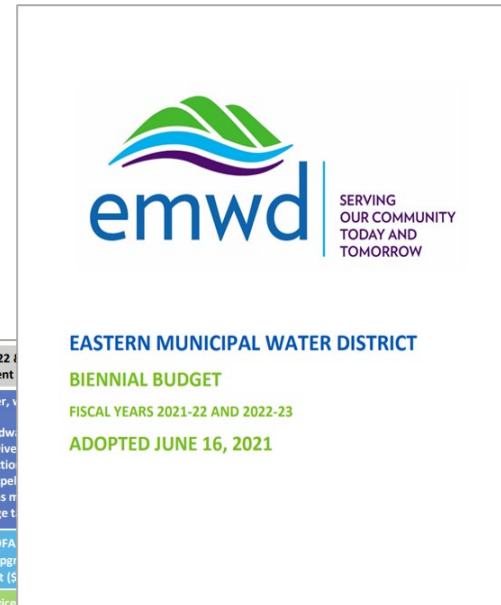
FY 2021-22 Budget Review – Total Expense

- Expense projections at 2nd Quarter (mid-year) were on target with budget
- Through the 3rd Quarter, total expense lower than target (6.7%), but trending higher



FY 2022-23 Proposed Operating/Non-Operating Revenue Adjustments

- Operating Revenue increase based on growth for fixed charges: \$5.0M
- Non-Operating Revenue increases:
 - Connection Fees: \$5.3M
 - Property Tax: \$3.0M
 - Interest Income: \$1.5M
 - Late Fees: \$800k



Standards of Excellence	Proposed FY 2022 Investment
Highly reliable water, recycled water, and wastewater service	<ul style="list-style-type: none"> Investments to improve water, water supply reliability: <ul style="list-style-type: none"> Perris North Basin Groundwater Wastewater plant Flow Divider Perris II desalter construction San Jacinto Raw Water Pipeline Engine/pumps lift stations maintenance Well maintenance/storage tanks
Protection of public and environmental health	<ul style="list-style-type: none"> SCADA PLC upgrades (\$4M) OFA Enterprise Microwave Data upgrade Investments in lab equipment (\$5M) OFA
Superior customer service	<ul style="list-style-type: none"> Investments in customer service: <ul style="list-style-type: none"> Development Services systems Upgrade (\$2.5M) OFA Customer Information System (CIS) and billing system replacement (\$2M) OFA
Sound planning and operational efficiency	<ul style="list-style-type: none"> Investments in business process improvements: <ul style="list-style-type: none"> Enterprise Resource Planning (ERP) upgrades (\$12.4M) OFA Fleet vehicles (\$5M) OFA
Fiscal responsibility and appropriate investment	<ul style="list-style-type: none"> Pursue refunding/refinancing opportunities to lower debt service Pursue grants and external funding for CIP Information Technology enhancements (\$3M) OFA Additional Discretionary Payments to CalPERS Pensions (\$19M)
Exemplary employer	<ul style="list-style-type: none"> Invest in business process improvements: <ul style="list-style-type: none"> CIS replacement
Effective communication, advocacy, and community partnerships	<ul style="list-style-type: none"> Partnering with Youth Ecology Corp and others Promoting water conservation through water garden development

FY 2022-23 Proposed Operating/Non-Operating Expense Adjustments

- Energy Expense (electricity and natural gas) increase: \$4.6M
 - Approximately 32% increase
- Salaries and Benefits net increase: \$3.5M
- CalPERS increase: \$2.1M
- Gasoline/Diesel Fuel increase: \$839k
 - Includes emergency tank fills of \$330k
- Chemicals increase: \$1.2M
- Pension liability contribution funding decreased by \$4.0M
- Phase 2 ERP/DSMS projected consulting expenses of \$650k reclassified from OFA to operating budget

FY 2022-23 Wages and Benefits Summary

Category (in millions)	FY 2021-22 Budget	FY 2021-22 Forecast	FY 2022-23 Adopted Budget	FY 2022-23 Budget Update	% Increase
Wages	69.2	70.1	70.8	74.1	4.6%
CalPERS	21.0	21.3	21.5	23.6	9.8%
Medical & Other Benefits	17.9	17.9	18.3	18.6	1.6%
Total	\$ 108.1	\$ 109.3	\$ 110.7	\$ 116.3	5.1%

- FY 2021-22 Forecast updated as a result of higher than anticipated COLA (4.5% vs 2.0%) effective January 2022
- Changes in FY 2022-23 positions
 - One new FTE – Development Services Technician (Board approved reorganization in December 2021)
- FY 2022-23 Budget Update includes adjusted wages forecast and increased pension costs resulting from “fresh start” amortization of 15 years

OFA – Overview and Proposed FY 2022-23 Adjustments

- Proposed combined budget is reduced by \$14.3M
- ERP/DSMS transfer to operations; implementation scheduled for 2024
- Supply chain delays to 2024

	Fiscal Year 2021-22		Fiscal Year 2022-23		COMBINED FY 2021-22 & 2022-23		
	ORIGINAL BUDGET	FORECAST	ORIGINAL BUDGET	UPDATED BUDGET	ORIGINAL BUDGET	UPDATED BUDGET	DIFFERENCE
Vehicles	\$ 3,379,000	\$ 550,993	\$ 1,246,000	\$ 4,386,681	\$ 4,625,000	\$ 4,937,674	\$ 312,674
IT Infrastructure	\$ 8,258,036	\$ 5,395,036	\$ 16,815,000	\$ 7,028,000	\$ 25,073,036	\$ 12,423,036	\$ (12,650,000)
O&M Maint. & RWRP Projects & Equip.	\$ 13,866,522	\$ 5,610,786	\$ 9,671,067	\$ 16,171,756	\$ 23,537,589	\$ 21,782,542	\$ (1,755,047)
Other	\$ 820,500	\$ 200,000	\$ 75,000	\$ 475,000	\$ 895,500	\$ 675,000	\$ (220,500)
Total	\$ 26,324,058	\$ 11,756,815	\$ 27,807,067	\$ 28,061,437	\$ 54,131,125	\$ 39,818,252	\$ (14,312,873)
							-26.4%

\$14.6M below budget

\$254k carry-over to FY 2022-23

Proposed net decrease of \$14.3M.
 \$12M moved to FY 2023-24 & FY 2024-25 (ERP/DSMS).

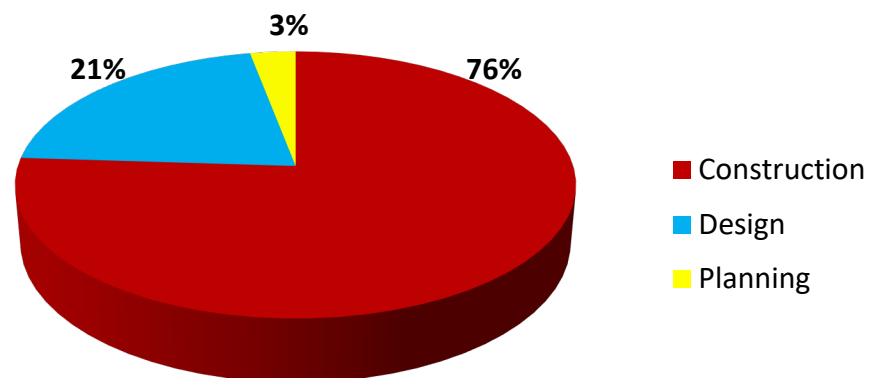
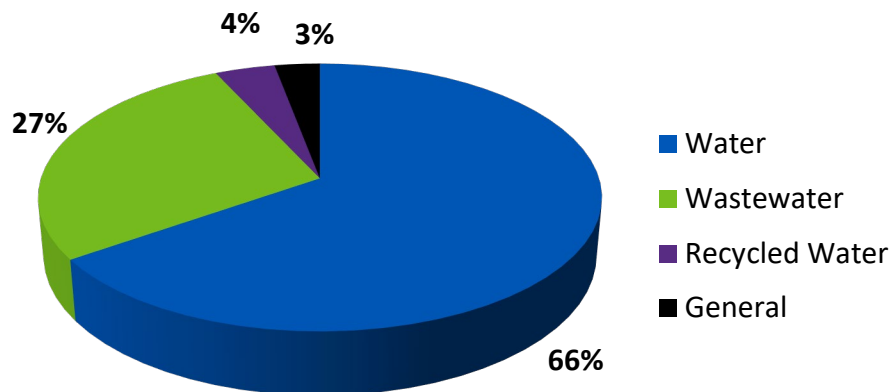


Impacts to Capital Improvement Program

- Accelerated ARPA Funding of Key Projects
 - Wine Country, Mead Valley, Los Alamos Water
- Inflation and Pandemic Impacts
 - Perris North Program increased 18%
- System Condition Assessments
 - Romoland Feeder Replacement expedited
- Power Safety Shutoff Program
 - Water Booster Plant Improvements Phases I – IV
- Accelerated Development Trends
 - Pettit I 4.5 MG Tank and Pipeline expedited to accommodate growth in Moreno Valley

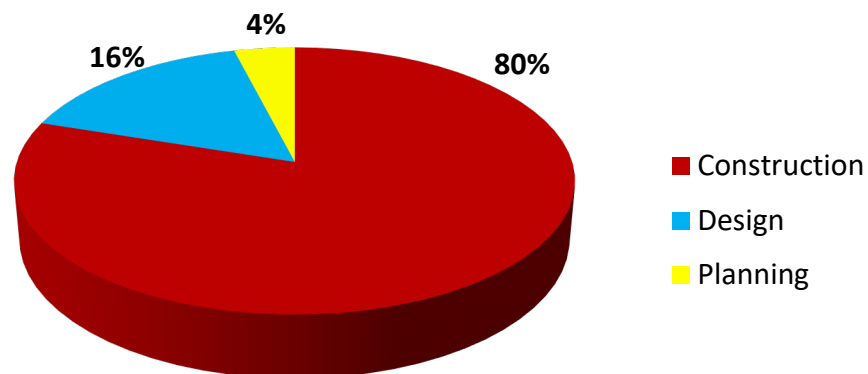
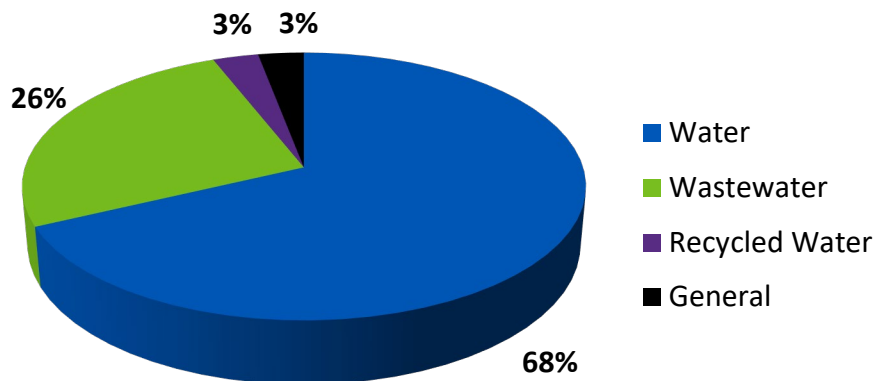


FY 2021-22 Capital Improvement Program



PROJECT TYPE	COUNT	2021-22 (\$ Million)
WATER	94	\$70.2 Mil
WASTEWATER	62	\$29.4 Mil
RECYCLED	17	\$3.8 Mil
GENERAL	8	\$2.9 Mil
TOTAL	181	\$106.3 Mil

FY 2022-23 Capital Improvement Program

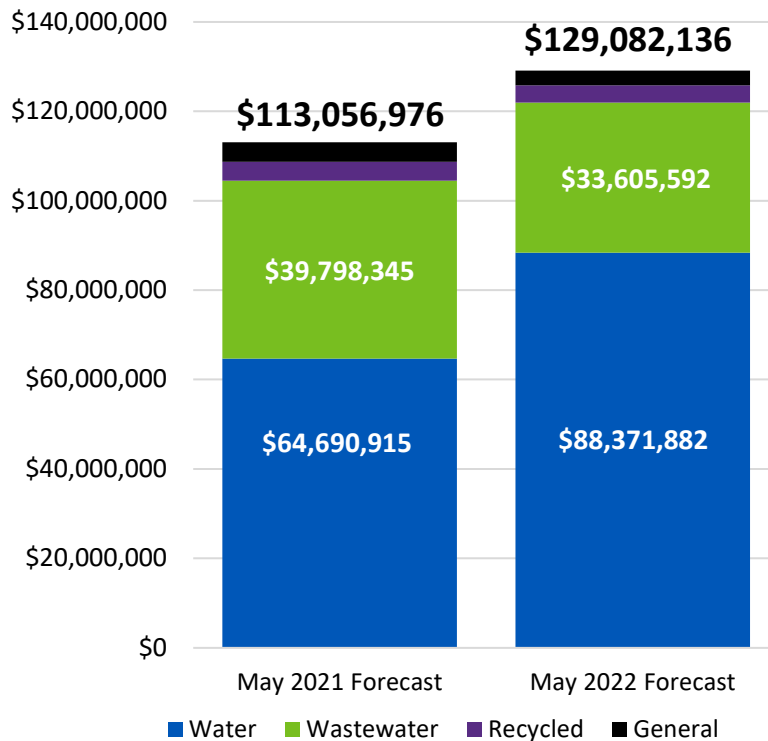


PROJECT TYPE	COUNT	2022-23 (\$ Million)
WATER	91	\$88.4 Mil
WASTEWATER	64	\$33.6 Mil
RECYCLED	9	\$3.8 Mil
GENERAL	7	\$3.3 Mil
TOTAL	171	\$129.1 Mil

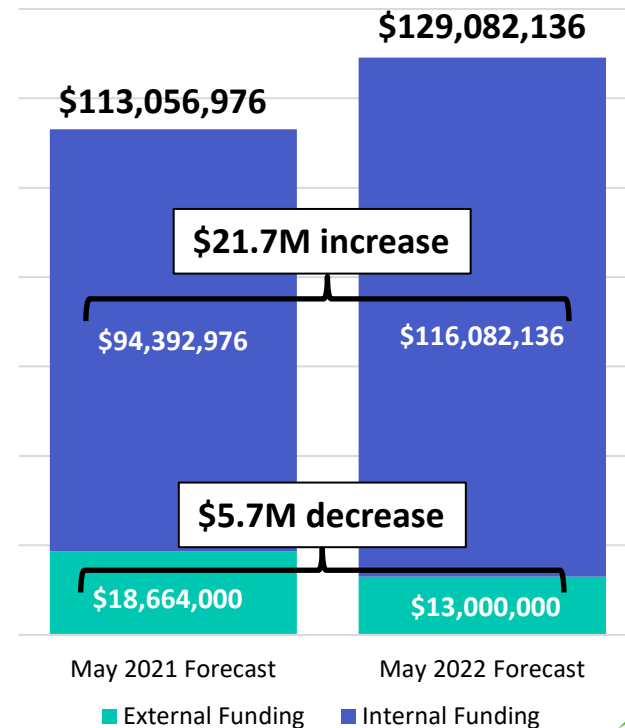
FY 2022-23 CIP Forecast Comparison

- FY 2022-23 = 14% increase from May 2021 forecast
- \$116.1 million out-of-pocket, increase of \$21.7 million
- \$13 million projected in external funding, decrease of \$5.7 million

CIP Forecast Comparison



Internal/External Funding Comparison



Proposed FY 2022-23 Budget Adjustments

	FY 2022-23 APPROVED BUDGET	FY 2022-23 BUDGET UPDATE	Net Increase/ (Decrease)
Revenues:			
Operating Revenues	\$ 297,714,000	\$ 302,709,000	\$ 4,995,000
Property Tax	50,801,000	53,801,000	3,000,000
Connection Fees	45,500,000	50,760,000	5,260,000
Interest Income	5,000,000	6,500,000	1,500,000
Late Fees	3,900,000	4,700,000	800,000
Total Increase/(Decrease) Revenues:	\$ 402,914,000	\$ 418,469,000	\$ 15,555,000
Operating Expenses:			
Wages	\$ 70,835,000	\$ 74,072,000	\$ 3,237,000
Medical and Other Benefits	18,337,000	18,628,000	292,000
CalPERS (UAL & Normal Costs)	21,502,000	23,607,000	2,105,000
Pension Liability Contribution Funding	19,000,000	15,000,000	(4,000,000)
Energy Expense (Electricity & Natural Gas)	18,437,000	23,068,000	4,630,000
Chemicals	8,008,000	9,218,000	1,210,000
Outside Services	17,915,000	18,395,000	480,000
Gasoline/Diesel	1,762,000	2,600,000	839,000
Transfer from OFA	-	650,000	650,000
Purchased Water Costs	79,268,000	79,462,000	194,000
Other Operating costs	9,133,000	9,670,000	537,000
Total Increase/(Decrease) Expenses:	\$ 264,196,000	\$ 274,369,000	\$ 10,172,000
Net Increase/(Decrease) to Operating Margin:	\$ 138,718,000	\$ 144,100,000	\$ 5,382,000
OFA (2-year Combined Budget)	\$ 54,131,000	\$ 39,818,000	\$ (14,313,000)
CIP (Excludes External Funding)	\$ 94,393,000	\$ 116,082,000	\$ 21,689,000
Net Impact on Reserves:			\$ (1,994,000)

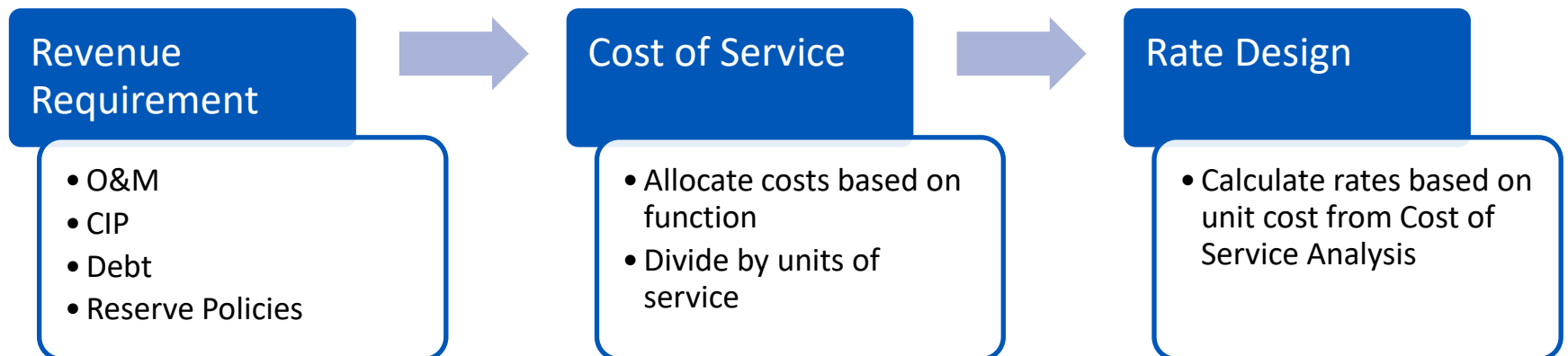


Next Steps and Recommendation



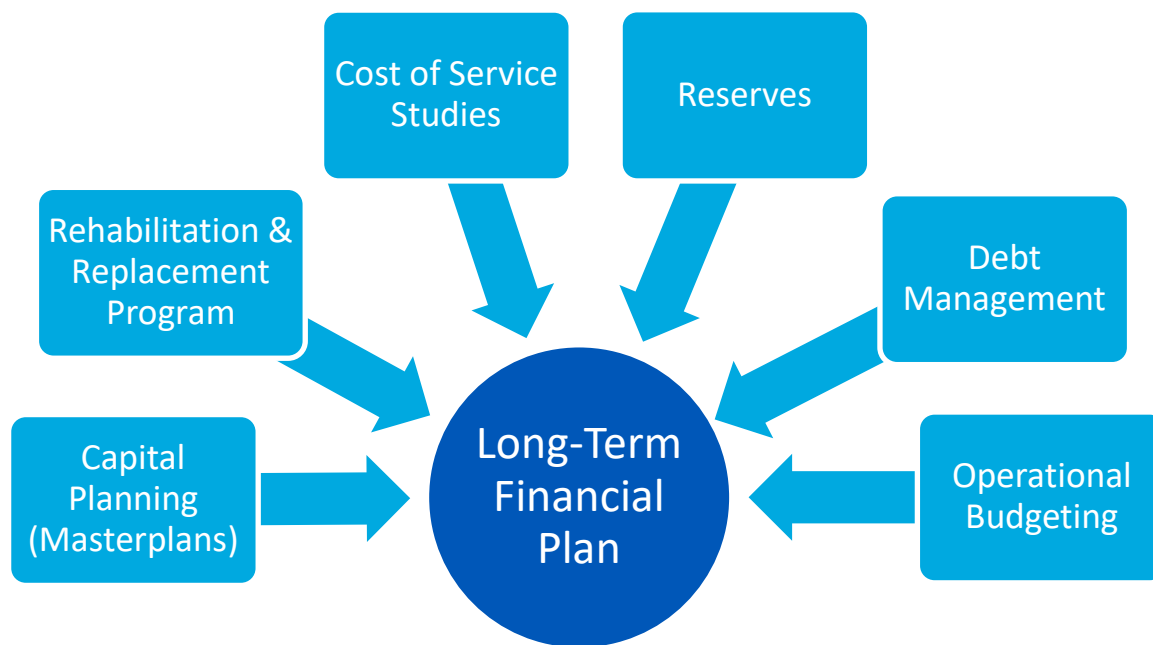
2023 Cost of Service and Rate Study

- Last study completed in 2017; Carollo Engineers selected in March 2022 to perform update
- Purpose: Update water and sewer rates and charges to meet revenue requirements within the framework of Proposition 218
- Objectives:
 - Legally Defensible – *Fits within Proposition 218 guidelines*
 - Equitable – *Minimizes ratepayer impacts*
 - Resilient – *Provides sufficient revenue under multiple scenarios*
 - Tailored – *Customized to EMWD's infrastructure and supply portfolio*



Long-Term Financial Plan

- Last updated in 2015; Raftelis engaged to perform update in 2020
 - Update stalled in 2020 amid COVID-19
- Scope: Update model to incorporate CIP rehab/replacement program
- Strategic planning tool to accommodate and model various assumptions
 - Provides ability to quickly review impact(s) of changes to different parameters



Planning for Biennial Budget (FY 2023-24 and 2024-25)

Date	Actions
June 15, 2022	Public Hearing to Adopt Recycled Water Rates
June 15, 2022	Mid-Cycle Budget Update for FY 2022-23
June – October 2022	2023 Cost of Service and Rate Study Financial Model Development with Staff and Board Workshops
November 2022	Long-Term Financial Plan Update
February 2023	2023 Cost of Service and Rate Study Approval
March – May 2023	Budget Development and Board Workshops
June 2023	Public Hearing to Adopt Biennial Budget and Proposed Rates
January 2024	New Rates Become Effective

Recommendation

Approve proposed budget adjustments to Operating and Non-Operating Revenue and Expense, Capital Improvement Program, and Operating Fixed Asset for Fiscal Year 2022-23



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