



REVISED
DISCUSSION ITEM
January 13, 2021

TO: Administration & Finance Committee
(Directors Thomas, Dick, Vacant)

FROM: Robert Hunter, General Manager

Staff Contact: Hilary Chumpitazi

SUBJECT: Fiscal Year (FY) 2020-21 Budget Year-End Projections & Conceptual FY 2021-22 Budget Review

STAFF RECOMMENDATION

Staff recommends the Administration & Finance Committee discuss the budget year-end projections, upcoming budget process & key assumptions, and direct the General Manager as appropriate.

COMMITTEE RECOMMENDATION

Committee recommends (To be determined at Committee Meeting)

REPORT

Projected Year-End Estimates for FY 2020-21

MWDOC staff has initiated the budget process for FY 2020-21 and initial projections have been prepared for the remaining months of the current fiscal year in order to calculate the FY 2020-21 Year-End estimates. It is important to note, these projections utilize only four months of actual expenditures and estimate the remaining eight months in order to meet the budget schedule. Preliminary variance estimates for the FY 2020-21 core budget include:

1. The total variance for the Core Budget is projected to be a net \$36,713 (0.4%) better than the budget estimates including revenues being \$245,000 under budget and expenses being \$281,713 under budget. The budgeted draw on reserves was \$97,413 but the projected draw on reserves is only \$60,700. The most significant expense activities involved the election for five divisions and the Building Renovation Project. The largest variance for revenue was the Interest Revenue category.

Budgeted (Y/N): N	Budgeted amount: n/a	Core <u>X</u>	Choice <u> </u>
Action item amount: None	Line item:		
Fiscal Impact (explain if unbudgeted):			

2. MWDOC has not received the election invoice from the County and it may not be available until late February or early March. Due to the size of voter turnout, there is significant uncertainty in the estimated election cost for the four competitive division elections. Once the election invoice is received, the budget year-end projections and FY 2021-22 budget will be modified as appropriate.
3. The Building Renovation Project (both Building Expense and Capital Acquisition Expense) is a comparatively large expense and includes significant year-to-year carryover of funds. The project will be completed in FY 2021-22.
4. Interest revenue is projected to be \$245,000 (53.5%) less than budgeted due to the rapid reduction of investment interest rates.
5. Other major budget expense variances in the year-end projections include Professional Fees projected to be \$131,137 under budget and Engineering expenses at \$234,896 over budget. Other below budget expense categories include Outside Miscellaneous Expense (\$62,554), Printing et al (\$42,695), Salaries & Wages (\$38,657), Maintenance Expense (\$32,420), and MWD Representation (\$30,027). COVID-19 operational impacts influenced many of these variances.

Projected Reserve Fund Balances

One goal of the budget process is the early identification of Reserve Fund impacts. The stated goals of the Board of Directors are to have reserves fully funded and that the budget should be balanced relative to meeting those reserve targets. In other words, if the combination of previous fiscal year's audited reserve balances and the current fiscal year year-end projections indicate that the reserve target will be exceeded then the proposed budget should include a draw from the reserve balance down to the target. Conversely, if the projected total will drop the reserve balance below the target then the proposed budget should increase the budgeted contribution to bring the reserves back up to the target.

The MWDOC designated reserve targets for FY 2021-22 and the planned reserve balances for FY 2020-21 (financial audit balances) are summarized in the table below. The total unfunded balance is (-)\$11,624 (Total Target (-) Total Planned Balance) (i.e., a surplus). As indicated in #1 (above) a total of \$60,700 is projected to be a draw on reserves from the FY 2020-21 operations. This draw is allocated to the General Operations Reserves as indicated in the table column "FY 2020-21 Projected Year End Reclass to Reserves". This will result in an unfunded total reserve balance of \$49,076.

Therefore, the goal for rate setting in the FY 2021-22 budget will be to have a budget surplus of \$49,076 to fully fund the reserves.

Designated Reserves	# Days Cash	FY 2021-22 Target Reserve	FY 2020-21 Planned Reserve Balance	FY 2020-21 Projected Year End Reclass to Reserves	FY 2021-22 Projected Reserve Balance
General Operations	90-180	\$ 3,727,775	\$ 3,738,505	\$ (60,700)	\$ 3,677,805
Grant & Project Cash Flow		1,500,000	1,500,000	-	1,500,000
Building Reserve	10-15	435,648	436,542	-	436,542
Election Reserve	N/A	285,000	285,000	-	285,000
OPEB Reserve est.9/2018	N/A	297,147	297,147	-	297,147
TOTALS		\$ 6,245,570	\$ 6,257,194	\$ (60,700)	\$ 6,196,494

MWDOC Budget Process FY 2019-20

Again this year, MWDOC will operate under the accelerated budget schedule whereby deadlines are moved up one month from previous years. This schedule change, to adopt the final MWDOC budget one month earlier (April), was implemented to facilitate the budget and rate schedules of our member agencies. Under this schedule, the Year-End Projections and Conceptual Budget (assumptions) are discussed at the January 13th Administration & Finance (A&F) Committee, followed by the first draft budget presented at the February 10, 2021 A&F Committee meeting. The final budget is scheduled for approval by the MWDOC Board of Directors at the April 21, 2021 Board meeting.

Similar to last year, the Choice budget elections and commitments will lag behind this proposed schedule and staff will bring back to the Board a revised Final Choice Budget in September or October 2021 to reflect the reconciliations and final program commitments of our Member Agencies. These changes will not impact the rates and charges passed in April for Core activities.

Proposed Key Additions & Assumptions for Developing the FY 2021-22 Draft Budget

In preparation of the Proposed Budget for FY 2021-22, staff has begun assessing the following key additions and assumptions:

- Based on the formula adopted in last year's budget process, the working Compensation Pool increase for the budget is 3.65% based on a projected annual regional CPI of 1.65%. This is significant reduction as the preliminary CPI falls into the "low inflation" category instead of the "moderate inflation" category.
- No new FTEs are proposed at this stage of the budget process for FY 2021-22.
- The bulk of the building remodel construction and expenses will be realized in FY 2020-21 and the FY 2021-22 budget.

- Travel and Conference expenses are not expected to vary significantly from the current year budget, which were reduced for COVID-19 impacts.
- Metropolitan activities will focus on the Integrated Resource Plan, subsequent policy discussions, demand management and LRP funding, rate considerations, and the delta conveyance issues.
- Engineering staff will focus on water reliability and supply projects, the coordination of Metropolitan repair projects and the water system operations and potential water quality impacts of supply projects.
- MWDOC has retained a new Washington, DC advocate firm (NRR) and significant activity is anticipated associated with the new Administration and appointments including Delta Conveyance issues and Colorado River salinity considerations. MWDOC will direct close coordination on common issues between our DC and Sacramento advocates.
- Work is expected to increase associated with the small non-compliant water systems and funding issues.
- Priority work will also include efforts related to the pump-in of the EOCF#2, the IRWD Regional South County Interconnection work, and implementation of the hydraulic model of the OC regional distribution system and the incorporation of water quality modules into the hydraulic model.
- Next fiscal year is expected to include major milestones in the permitting for both the Poseidon and Doheny desal projects.
- The Water Loss Program will enter its third year of operation with several adjustments in services.

Staff will continue working on preparation of the budget towards publication of the first draft in February for distribution to the Board and the member agencies.