



# Proposed Biennial Budget Update for FY 2019-20 and FY 2020-21

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June 17, 2020

# Presentation Topics

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- Biennial Budget Mid-Cycle Update Process
- Forecast Budget Impacts of COVID-19
- Resulting Operating/Non-Operating Budget Highlights
- Capital Improvement Program (CIP) Overview and Proposed Budget Adjustments
- Operating Fixed Asset (OFA) Overview and Proposed Budget Adjustments
- Biennial Summary with Proposed FY 2020-21 Budget Adjustments
- Recommended Board Action

# Biennial Budget Mid-Cycle Update Process

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- Review and analyze FY 2019-20 actual operating revenues and expenses, capital project status and Operating Fixed Asset expenditures
- Prepare adjusted forecasts for FY 2020-21 based upon actual expenses, sales trends, expense projections and other factors
- Use financial model to incorporate revised projections based upon customer data and impacts related to COVID-19:
  - Lower water sales
  - Higher account write-offs
  - Lower Connection Fees (FPCs)
  - Reduced operating expenses
- Present recommended FY 2020-21 adjusted budget for Board approval



# Forecast Budget Impacts of COVID-19

- Developed multi-scenario financial model for COVID-19 impacts
- Evaluated range of impacts to critical budget parameters
- Compared to FY 2007-2008 great recession impacts - adjusted as necessary

<b>Budget Parameters:</b>	FY 2021 Budget	FY 2021	FY 2021	Dec 07 - Jun 09
<b>Scenarios:</b>	No Impact - Baseline	Forecast Impact	Severe Impact	Recession High
Water Sales (AF)	88,100	83,695	79,290	<b>103,794</b>
% Change		-5.0%	-10.0%	
Water Sales (\$)	\$156,529,499	\$150,619,399	\$144,709,299	<b>\$103,013,429</b>
% Change		-3.8%	-7.6%	
Property Taxes & Standby	\$41,600,000	\$39,936,000	\$38,272,000	<b>\$42,516,257</b>
% Change		-4.0%	-8.0%	
Connection Fees	\$50,026,650	\$43,523,186	\$37,519,988	<b>\$30,706,687</b>
% Change		-13.0%	-25.0%	
Operating Expense	\$257,739,295	\$253,134,458	\$248,529,621	<b>\$161,506,560</b>
% Change		-1.8%	-3.6%	
Aging (>60 days)	\$350,000	\$1,500,000	\$2,500,000	<b>\$838,543</b>
Write-offs	\$200,000	\$1,000,000	\$1,500,000	<b>\$1,386,075</b>

# Proposed Operating/Non-Operating Budget Update Adjustments for FY 2020-21

- Operating Revenue and Expense:
  - Incorporate 5% reduction in water sales of \$5.9 million
  - Increase write-offs from \$0.2 million to \$1.0 million and reduce tax/standby revenue by \$0.2 million
  - Reduce Water Purchases expense due to lower sales demand by \$4.6 million
  - Other administrative expense adjustments
- Non-Operating Revenue and Expense:
  - Reduce Connection Fee revenue by \$6.5 million or 13% to reflect potential development impacts
  - Adjust Debt Expense down \$4.0 million or 6.7% due to debt restructuring and lower interest rates



**EASTERN MUNICIPAL WATER DISTRICT**  
**BIENNIAL BUDGET**  
 FISCAL YEARS 2019-20 AND 2020-21  
 ADOPTED JUNE 19, 2019

ADOPTED BUDGET FISCAL YEAR 2019-20 AND 2020-21

Investment In Excellence  
 To achieve the District's vision, and sustain its important investments.  
 For Fiscal Year 2017-18 and 2018-19, the District excellence and make progress towards achieving table below.

Standards of Excellence	Proposed FY 2018 & FY 2019 Budget Investment Highlights
Highly reliable water, recycled water and wastewater service	<ul style="list-style-type: none"> <li>Investments to improve water, wastewater and recycled water supply reliability:               <ul style="list-style-type: none"> <li>Purified Water Replenishment (\$10M) CIP</li> <li>Wastewater plant improvements (\$6M) OFA</li> <li>Perris II desalter construction (\$6M) CIP</li> <li>Engines/pumps lift stations maintenance (\$10M) OFA</li> <li>Well maintenance/storage tank cooling (\$3M) OFA</li> </ul> </li> </ul>
Protection of public and environmental health	<ul style="list-style-type: none"> <li>Cyber security upgrades (\$4.3M)</li> <li>Wastewater flow monitoring upgrade (\$0.6M) OFA</li> <li>Investments in lab equipment (\$0.4M) OFA</li> </ul>
Superior customer and community service	<ul style="list-style-type: none"> <li>Investments in customer service technology               <ul style="list-style-type: none"> <li>Automated Metering Systems (AMS) (\$13M) OFA</li> <li>Billing system enhancements (\$2M) OFA</li> </ul> </li> </ul>
Sound planning and appropriate investment	<ul style="list-style-type: none"> <li>Investments in energy independence               <ul style="list-style-type: none"> <li>Reduced annual electric energy cost by \$2M as result of SMW wastewater plants solar investment completed in FY 2016-17</li> </ul> </li> <li>Investments in business process improvements               <ul style="list-style-type: none"> <li>Fleet vehicles (\$6M) OFA</li> <li>Information Technology upgrades (\$5M) OFA</li> </ul> </li> </ul>
Efficiency and fiscal responsibility	<ul style="list-style-type: none"> <li>Pursue refunding/refinancing opportunities to lower debt service</li> <li>Pursue grants and external funding for CIP</li> <li>Invoice-to-pay workflow ERP implementation (\$1.3M) OFA</li> <li>Information Technology enhancements (\$1.5M) OFA</li> <li>Invest in OPEX Trust to reduce liability</li> </ul>
Exemplary employer	<ul style="list-style-type: none"> <li>Invest in business process improvements               <ul style="list-style-type: none"> <li>District Wide Voice Radio System Replacement (\$3M) OFA</li> </ul> </li> </ul>
Effective communication and accountability	<ul style="list-style-type: none"> <li>Partnering with Youth Ecology Corp and others</li> <li>Promoting water conservation through water garden development</li> </ul>



# Resulting Operating/Non-Operating Budget Highlights

## Lower Operating Revenue:

- Writeoffs, property taxes & sales

## Lower Connection Fees:

- \$2m lower in FY 2020
- \$6.5m lower in FY 2020-21
- Lower Prop. Tax \$1.7m

## Lower Debt Service Expense:

- Refunding
- Lower interest rates
- \$4m reduction

Category (in \$000's)	FY 2019-20 Budget	FY 2019-20 Forecast	FY 20 Fcst vs FY 20 Bud \$ Var	FY 2020-21 Budget	FY 2020-21 Budget UPDATE	FY 21 UPDATE vs FY 21 Bud \$ Var
<b>Operating Revenue</b>						
Operating Revenue	\$ 262,479	\$ 258,061	\$ (4,418)	\$ 275,518	\$ 269,408	\$ (6,110)
Collections Write-Offs	(200)	(350)	(150)	(200)	(1,000)	(800)
<b>Total Operating Revenue</b>	<b>\$ 262,279</b>	<b>\$ 257,711</b>	<b>\$ (4,568)</b>	<b>\$ 275,318</b>	<b>\$ 268,408</b>	<b>\$ (6,910)</b>
<b>Non-Operating Revenue</b>						
Connection & Development Fees	46,992	44,985	\$ (2,007)	50,027	43,523	\$ (6,504)
Interest Income	5,092	6,263	23.0%	7,540	7,540	0.0%
All Other Non-Operating Revenue	59,425	68,054	8,629	61,100	59,436	(1,664)
<b>Total Non-Operating Revenue</b>	<b>\$ 106,417</b>	<b>\$ 113,040</b>	<b>\$ 6,623</b>	<b>\$ 111,127</b>	<b>\$ 102,959</b>	<b>\$ (8,168)</b>
<b>Total Revenues</b>	<b>\$ 368,696</b>	<b>\$ 370,750</b>	<b>\$ 2,055</b>	<b>\$ 386,445</b>	<b>\$ 371,368</b>	<b>\$ (15,078)</b>
<b>Operating Expense</b>						
Water Purchases	\$ 75,350	\$ 70,644	\$ (4,706)	\$ 78,021	\$ 73,416	\$ (4,605)
Consolidated Operating Costs	127,995	123,425	(4,571)	132,631	132,631	-
<b>Total Operating Expense</b>	<b>\$ 203,345</b>	<b>\$ 194,069</b>	<b>\$ (9,276)</b>	<b>\$ 210,652</b>	<b>\$ 206,047</b>	<b>\$ (4,605)</b>
Operating Services	\$ 127,995	\$ 123,425	(4,571)	\$ 132,631	\$ 132,631	-
<b>Non-Operating Expense</b>						
Consolidated Non-Operating Expense	31,884	27,060	\$ (4,824)	34,512	34,512	\$ -
C.O.P./Bond Debt Expense	58,402	50,360	(8,042)	59,851	55,851	(4,000)
<b>Total Non-Operating Expense</b>	<b>\$ 90,286</b>	<b>\$ 77,419</b>	<b>\$ (12,866)</b>	<b>\$ 94,363</b>	<b>\$ 90,363</b>	<b>\$ (4,000)</b>
<b>Other Commitments</b>						
Other Post-Employment Benefits	18,000	18,000	\$ -	19,000	19,000	\$ -
<b>Total Expenses</b>	<b>\$ 311,631</b>	<b>\$ 289,488</b>	<b>\$ (22,143)</b>	<b>\$ 324,015</b>	<b>\$ 315,410</b>	<b>\$ (8,605)</b>
<b>Net Operating Margin</b>	<b>\$ 57,065</b>	<b>\$ 81,262</b>	<b>\$ 24,198</b>	<b>\$ 62,430</b>	<b>\$ 55,957</b>	<b>\$ (6,473)</b>

Maintaining Full budgeted **OPEB Contribution** for both years

## Net Operating Margin:

- \$24m higher in FY 2019-20, \$6m lower in FY 2020-21
- 2021 Margin positive at \$56.0m

Proposed FY 2020-21 **Expense Reduction** totaling **\$8.6m**



# Capital Improvement Program Budget

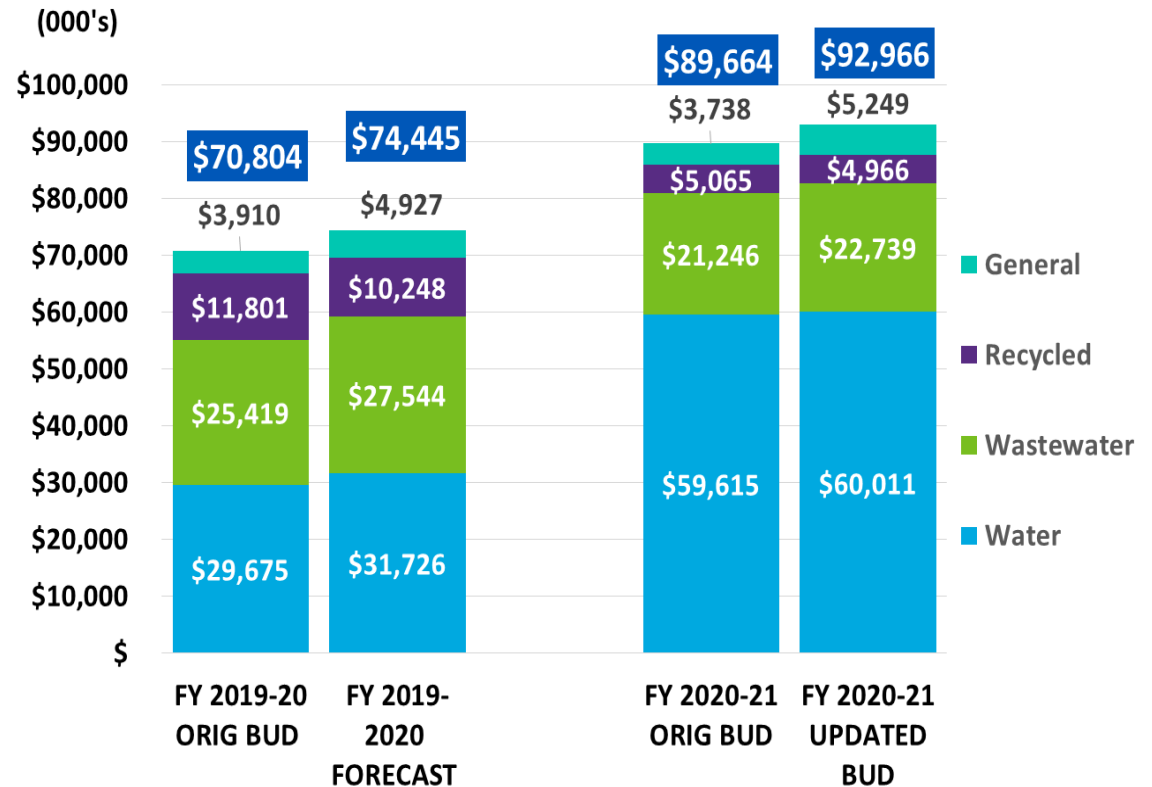


# CIP Budget – Overview and Proposed FY 2020-21 Adjustments

## Summary

- FY 2019-20 forecast expense of \$74.4 million, higher than budget by \$3.6 million
  - Accelerated projects, expenses/schedule
  - Approved change orders
- Proposed FY 2020-21 budget of \$93.0 million, increase of \$3.3 million
  - Grant funded projects
  - Adjusted construction spending pace and schedule

## CIP Investment 2020-2021 UPDATE



Proposed combined 2-Year CIP budget projected increase of \$6.9 million or 4%



# CIP – Overview and Proposed FY 2020-21 Adjustments

<b>FY 2019-20 - \$74.4 million (Higher by \$3.6 million or 5.1%)</b>	<b>Proposed FY 2020-21 – \$93 million (Proposed \$3.3 million increase or 3.7%)</b>
<ul style="list-style-type: none"><li>• Favorable external funding allowed the District to advance the <b>Solar Renewable Initiative</b> with an expanded capacity of 15.9 MW</li><li>• <b>Perris II Desalter:</b><ul style="list-style-type: none"><li>– Accelerated project schedule and pace of construction</li><li>– Exceeded originally forecast spending (net grant funding)</li><li>– Includes approved change orders for project</li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Perris North Groundwater Program:</b><ul style="list-style-type: none"><li>• Received \$44.5 million grant (50% capital) award in FY 2019-20</li><li>• With receipt of grant, refined project schedule and forecast FY 2020-21 expenses</li><li>• Projected FY 2020-21 increase of \$6 million</li></ul></li><li>• <b>Perris II Desalter:</b><ul style="list-style-type: none"><li>• Incorporated accelerated completion date for project</li><li>• Increased FY 2020-21 expense forecast by \$6 million</li></ul></li><li>• Other projects realigned and rescheduled resulting in \$8.9 million proposed FY 2020-21 expense reduction</li></ul>



# Operating Fixed Asset (OFA) Budget



# OFA Budget – Overview and Proposed FY 2020-21 Adjustments

Proposed 2-Year updated budget is \$54.9 million, down 2.3% from original combined budget of \$56.1 million.

	TOTAL FY 2019-20		TOTAL FY 2020-21		COMBINED FY19/20 & 20/21	
	ORIGINAL BUDGET	FORECAST	ORIGINAL BUDGET	UPDATED BUDGET	ORIGINAL BUDGET	UPDATED BUDGET
Vehicles	\$ 3,824,000	\$ 2,507,193	\$ 2,223,000	\$ 3,373,620	\$ 6,047,000	\$ 5,880,813
IT Infrastructure	\$ 15,623,095	\$ 7,350,686	\$ 15,320,435	\$ 22,698,934	\$ 30,943,530	\$ 30,049,620
O&M Maint. & RWRF Projects & Equip.	\$ 9,583,725	\$ 6,921,175	\$ 7,954,255	\$ 10,614,652	\$ 17,537,980	\$ 17,535,827
Other	\$ 1,133,944	\$ 194,563	\$ 438,000	\$ 1,222,044	\$ 1,571,944	\$ 1,416,607
<b>Total</b>	<b>\$ 30,164,764</b>	<b>\$ 16,973,617</b>	<b>\$ 25,935,690</b>	<b>\$ 37,909,250</b>	<b>\$ 56,100,454</b>	<b>\$ 54,882,867</b>

\$13.2 million below budget

\$12.0 million carry-over to FY 2020-21

Proposed 2-Year net budget reduction of \$1.2 million or 2.3%



# OFA – Overview and Proposed FY 2020-21 Adjustments

Vehicles	Operations & Maintenance	IT Infrastructure/ Other
<ul style="list-style-type: none"> <li>• 22 fleet units totaling \$1.2 million ordered or out for bid in FY 2019-20               <ul style="list-style-type: none"> <li>– Delivered FY 2020-21</li> <li>– Included in proposed 2020-21 budget</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• \$2.8 million of FY 2019-20 approved projects will carry over into FY 2020-21</li> <li>• Additional \$0.8 million in new OFA projects proposed for FY 2020-21               <ul style="list-style-type: none"> <li>– Includes \$0.6 million Perris RWRF Digester Gas Flare</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• \$7.2 million of FY 2019-20 approved projects will carry over into FY 2020-21</li> <li>• Includes :               <ul style="list-style-type: none"> <li>– \$3.4 million for the COINS Billing System Replacement</li> <li>– \$2.1 million SCADA Hardware, Software Upgrade</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Reduction of \$0.2 million over the 2-Year budget period</b> <ul style="list-style-type: none"> <li>– Includes non-essential items removed or deferred beyond FY 2020-21</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Total 2-Year Budget Update of \$17.5 million is in-line with original budget</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Reduction of \$1.0 million over the 2-Year budget period</b></li> </ul>

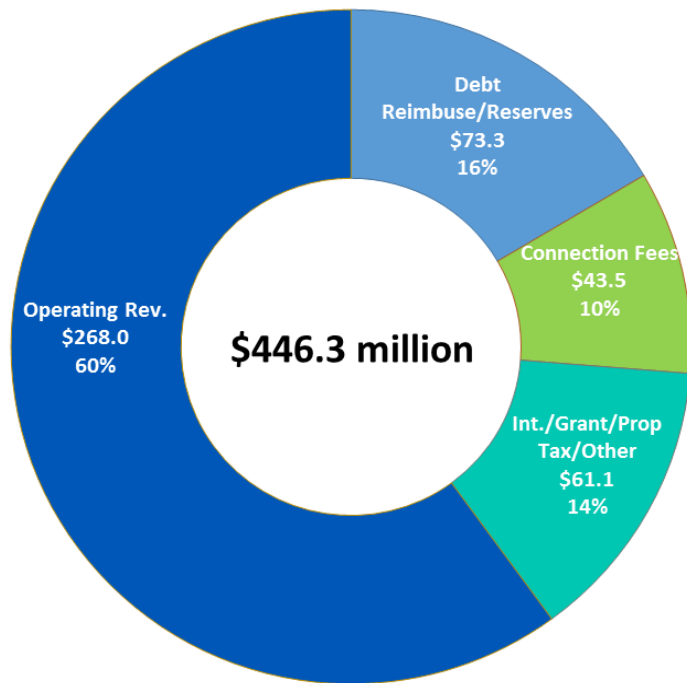
# Biennial Budget Summary with Proposed FY 2020-21 Adjustments

- Total FY 2019-20 and FY 2020-21 Revenue and Expenses are lower by \$13.0 million, or 1.7% and \$30.7 million, or 4.8%, respectively
  - Includes forecast impacts from COVID-19
- FY 2019-20 and Proposed FY 2020-21 Resulting Net Operating Margin is \$17.7 million
- CIP and OFA Net Capital Commitments are higher by \$5.7 million, or 2.6%
- Overall FY 2019-20 and Proposed FY 2020-21 Operating and Capital Expenditures are lower by \$25.0 million, or 3%

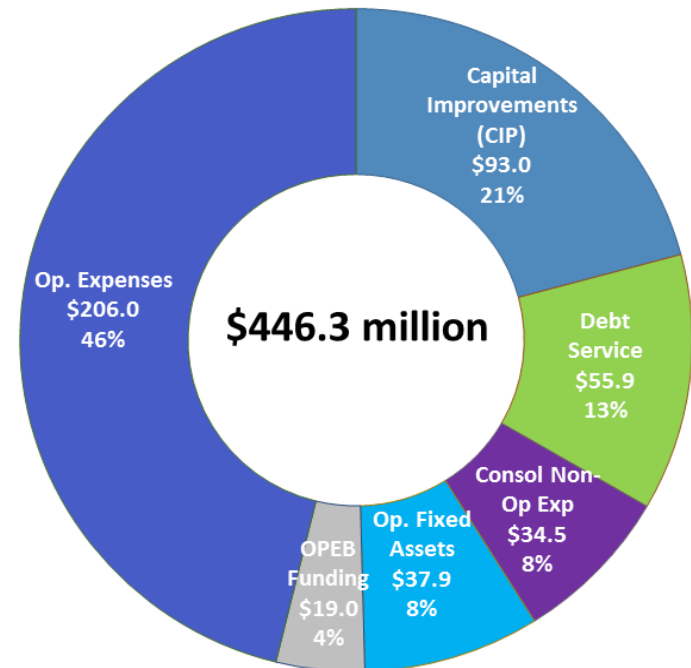
Category (in \$000's)	FY 2019-20 Budget	FY 2019-20 Forecast	FY 20 Fcst vs FY 20 Bud \$ Var	FY 2020-21 Budget	FY 2020-21 Budget UPDATE	FY 21 UPDATE vs FY 21 Bud \$ Var	FY20 + FY 21 Budget	FY 20 Forecast + FY21 Update	2-year Budget \$ Var
Total Revenue	368,696	370,750	2,055	386,445	371,368	(15,078)	755,141	742,118	(13,023)
Total Expenses	311,631	289,488	(22,143)	324,015	315,410	(8,605)	635,646	604,899	(30,748)
Net Operating Margin	57,065	81,262	24,197	62,430	55,957	(6,473)	119,495	137,219	17,725
Operating Fixed Assets (OFA)	30,165	16,973	(13,192)	25,936	37,909	11,974	56,100	54,882	(1,218)
Capital Improvement Plan (CIP)	70,804	74,445	3,641	89,664	92,966	3,302	160,468	167,411	6,943
Total Capital Commitments	100,969	91,418	(9,551)	115,600	130,875	15,276	216,568	222,293	5,725
Less: Contribution from Net Operating Margin	(57,065)	(81,262)	(24,197)	(62,430)	(55,957)	6,473	(119,495)	(137,219)	(17,725)
Less: Contribution from Capital / Op. Reserves	(43,904)	(10,156)	33,748	(53,170)	(74,918)	(21,748)	(97,074)	(85,074)	12,000
Total Expenditures	412,600	380,906	(31,694)	439,615	446,286	6,671	852,215	827,192	(25,023)

# Proposed FY 2020-21 Budget Update Sources and Uses

## FY 2020-21 Budget Update Funding Sources (\$Mil)



## FY 2020-21 Budget Update Funding Uses (\$Mil)



# Recommended Board Action

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Approve proposed Operating/Non-Operating, Capital and Operating Fixed Asset budget adjustments for Fiscal Year 2020-21



# Contact Information

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