

WATER ENTERPRISE FUND

The Water Enterprise rate structure is operating as intended, effectively supporting all operational needs, maintaining the operating reserve, servicing debt obligations, and accumulating funds for infrastructure upgrades, replacements, and maintenance. At the close of Fiscal Year 2023, there was an annual net position increase to \$16.7 million.

According to fiscal policy guidelines, the operating reserve is established at 25% of the prior year's operating expense, resulting in a set reserve of \$342k for Fiscal Year 2023. Additionally, the Enterprise fund has established a recession reserve of \$100k, equivalent to 5% of the Fund's operating budget.

The capital reserve recorded an increase of \$153k, reaching a total of \$4.7 million. The Capital Improvement Plan (CIP) for the Water Enterprise outlines a total of \$85.9 million for identified capital projects over the next five years, with funding sourced from Grants and Enterprise capital reserves. With these resources in place, the Fund is well-equipped to advance numerous projects outlined in the FY 24 budget, as detailed on page 203.

REVENUES

- User fees entirely support Water Enterprise Fund revenues. As of the end of the second quarter, revenues surpassed expectations by \$232k, reaching 58% of the budget. Previous water restrictions impacted revenue collection; however, with ample rainfall in the state, no restrictions are anticipated for the upcoming summer months. Projections indicate a year-end total revenue of \$3.1 million, reflecting a 2 percent increase from the prior fiscal year. This increase is attributed to higher consumption levels, aligning more closely with pre-COVID totals. In the fourth quarter, a Request for Proposal will be issued for water and wastewater rates.

WATER ENTERPRISE											
	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Approved Net Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Variance Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)
Operating Revenue	\$ 3,005,288	\$ 3,018,464	\$ 3,050,060	\$ -	\$ 3,050,060	\$ 1,525,030	\$ 1,758,027	58%	\$ 232,997	\$ 3,050,060	\$ -
Capacity Fees	44,837	91,608	50,000	-	50,000	25,000	5,425	11%	(19,575)	15,000	(35,000)
Grants Received	640,664	-	-	-	-	-	-	-	-	-	-
Miscellaneous	44,837	63,639	60,100	-	60,100	30,050	11,004	18%	(19,046)	41,000	(19,100)
Total Revenue	3,735,626	3,173,710	3,160,160	-	3,160,160	1,580,080	1,774,456	56%	194,376	3,106,060	(54,100)
Personnel services	1,039,332	1,175,299	1,192,854	-	1,192,854	596,427	584,941	49%	(11,486)	1,165,726	27,128
Administration	683,735	700,106	473,565	-	473,565	236,782	234,576	50%	(2,206)	473,565	-
Repairs & maintenance	52,440	36,575	44,500	1,378	45,878	22,939	27,326	60%	4,387	45,878	-
Materials & supplies	169,901	368,037	291,448	-	291,448	145,724	103,721	36%	(42,003)	262,948	28,500
Utilities	147,423	174,940	175,000	-	175,000	87,500	91,501	52%	4,001	175,000	-
Contractual services	93,135	90,394	93,000	29,258	122,258	61,129	18,560	15%	(42,569)	112,258	10,000
Insurance	31,351	50,151	62,689	-	62,689	31,344	53,392	85%	22,048	62,689	-
Other operating	35,035	6,415	10,500	-	10,500	5,250	677	6%	(4,573)	10,500	-
Interest/Debt Service	55,434	67,764	65,289	-	340,080	170,040	294,689	87%	124,649	340,080	-
Depreciation **	364,752	364,563	-	-	-	-	-	0%	-	-	-
Total Expenditures	2,672,538	3,034,244	2,408,844	30,636	2,714,272	1,357,136	1,409,384	52%	52,248	2,648,644	65,628
Net Revenue/(Expense)	\$ 1,063,088	\$ 139,467	\$ 751,316		\$ 445,888	\$ 222,944	\$ 365,073	82%	\$ 142,128	\$ 457,416	11,528

* Audited results do not include payment of principal which is not an expense in full accrual accounting

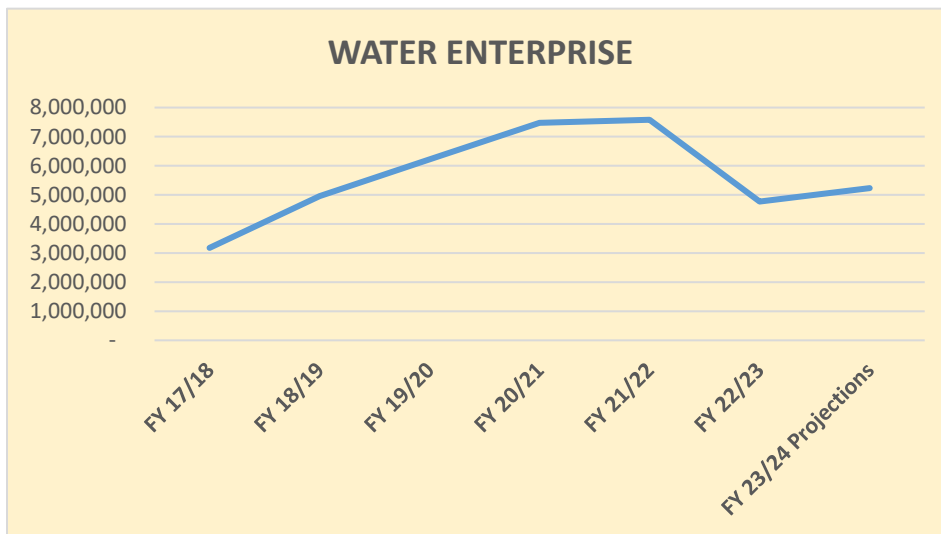
** Depreciation Expense is not budgeted and therefore not included in calculation of budget variance

EXPENDITURES

Water Enterprise's expenses for the first half of FY 2024 totaled \$1.4 million, 58% of the amended annual budget. The projected year-end total is \$2.3 million, \$41k under budget.

- At mid-year, Debt Service is 87% of the total annual budget. Principal payments are paid in October and a second smaller interest payment is in April. The adopted budget includes the final loan payment of \$337k for the 2014 Revenue refunding bond which will be paid off this fiscal year.
- Repairs and Maintenance are 60% of the adopted and are forecasted to end the fiscal year at budget levels. Most of these repair costs were undertaken in the first half of the year.
- No other significant variances are expected in other enterprise expense category at year-end.

During the summer months of 2019-2022, the City faced significant water shortage challenges. To address these issues, City Staff proactively pursued alternative plans, such as implementing the Desalination Unit in 2021 and exploring alternative water sources and storage options, including the acquisition of the Highway 20 property. Furthermore, the installation of new water meters, funded by the Community Development Block Grant (CDBG), will enhance the City's ability to detect leaks and monitor water usage in real time.



Projected revenues of \$3.1 million and expenses of \$2.6 million are anticipated for the Water Enterprise in FY 2022/23. With staff projections factored in, the Enterprise is expected to conclude the fiscal year with a net position of \$13.2 million and reserves totaling \$5.2 million.

The Enterprise Capital Reserve allocates \$3.3 million for various Capital Improvement Projects (CIPs), including \$812k for the Pudding Creek water main, \$850k for the Distribution system, \$500k for the raw water reservoir, \$300k for the extended water system north, and \$750k for the reclamation design.

In the previous fiscal year, the Enterprise fund acquired over 582 acres of property from the Mendocino Coast Recreation Park District for \$2,420,579. This purchase will contribute to a reduction of reserves by \$5.2 million in total. Staff remains proactive in securing Grant funds to support identified CIP projects, utilizing capital reserves for matching funds as needed. For a comprehensive list of scheduled Capital Improvement Projects for the Water Enterprise, please refer to pages 205-213 of the Adopted Budget.

WASTEWATER ENTERPRISE FUND

The Wastewater Enterprise rate structure is functioning as designed and continues to fund all operations, maintain the operating reserve, provide for debt, and accumulate funds for infrastructure upgrades, replacements, and maintenance. The fiscal Year 2023 ended with an annual net position decrease of \$1.2 million to \$22.8 million. Per policy, the operating reserve is set at 25% of the prior year's operating expense, and for the Fiscal year 2024 was set at \$625k.

WASTEWATER ENTERPRISE												
	Audited FY 2021/22 Actuals	Audited FY 2022/23 Actuals	Adopted Budget	Approved Net Budget Amendments	Amended Budget	Pro Rated Budget as of 12/31/2023	YTD Actual 12/31/2023	Mid-Year Variance %	Variance Budget vs. Actual	Estimated Year End	Forecast Surplus/ (Shortfall)	
Operating Revenue 407	\$ 3,477,367	\$ 3,390,904	\$3,391,756	\$ -	\$ 3,391,756	\$ 1,695,878	\$ 2,019,411	60%	\$ 323,533	\$ 3,395,756	\$ 4,000	
Capacity Fees 415	112,468	44,221	120,000	-	120,000	60,000	68,374	57%	8,374	127,000	7,000	
Miscellaneous Revenue 416	20,319	181,799	20,000	-	20,000	10,000	9,500	48%	(500)	20,000	-	
Total Revenue	3,610,153	3,616,924	3,531,756	-	3,531,756	1,765,878	2,097,285	59%	323,533	3,542,756	4,000	
Personnel services	693,885	971,400	759,353	-	759,353	379,676	412,158	54%	32,481	737,852	21,500	
Administration	1,225,605	1,430,931	713,395	-	713,395	356,697	355,631	50%	(1,067)	709,395	4,000	
Repairs & maintenance	175,875	95,853	142,750	25,696	168,446	84,223	89,021	53%	4,798	139,446	29,000	
Materials & supplies	292,245	509,283	298,894	119,821	418,715	209,358	146,629	35%	(62,729)	417,815	900	
Utilities	222,967	305,844	300,000	-	300,000	150,000	196,785	66%	46,785	300,000	-	
Contractual services	360,280	446,764	411,701	303,775	715,476	357,738	167,345	23%	(190,393)	715,476	-	
Insurance	49,798	56,506	70,633	-	70,633	35,316	112,645	159%	77,329	112,645	(42,012)	
Interest/Debt Service * 506	95,650	93,850	92,010	-	92,010	46,005	-	0%	(46,005)	92,010	-	
Depreciation **	829,815	816,894	-	-	-	-	-	0%	-	-	-	
Total Expenditures	3,946,121	4,727,326	2,788,736	449,293	3,238,028	1,619,014	1,480,213	46%	(138,801)	3,224,640	13,388	
Net Revenue/(Expense)	\$ (335,967)	\$ (1,110,402)	\$ 743,021	\$ (449,293)	\$ 293,728	\$ 146,864	\$ 617,072		\$ 462,334	\$ 318,116	24,388	

* Audited results do not include payment of principal which is not an expense in full accrual accounting
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REVENUES

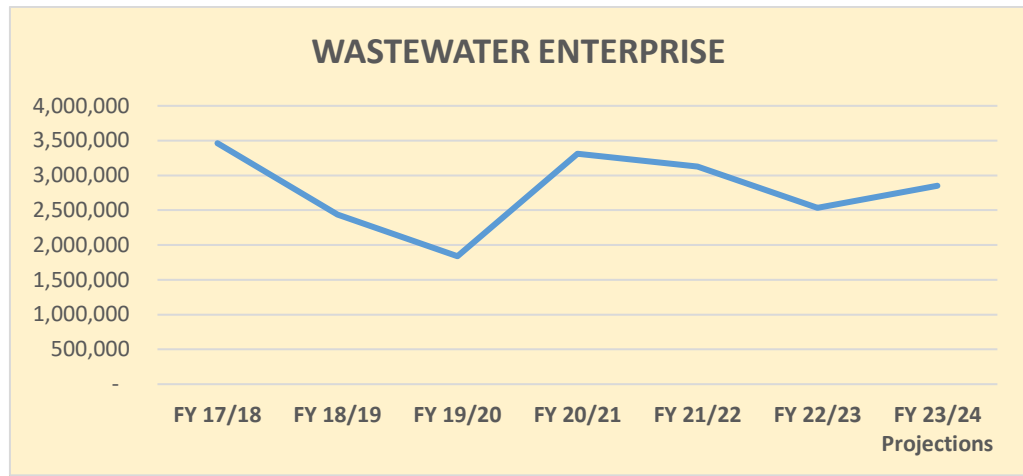
Like the Water Enterprise fund, the projected year-end revenue for the current fiscal year is estimated to be \$3.5 million or approximately \$4k more than the original adopted budget but down from the prior year by 2%. The septic dumping station recorded a \$7k increase in operating revenues for the Fund.

EXPENDITURES

Wastewater Enterprise expenses totaled \$1.4 million, 46% percent of the amended annual budget. The projected year-end total is \$3.2 million, which is approximately \$13k less than the budget:

- At year-end personnel, services are expected to be approximately \$21k under budget, mainly due to savings in personnel costs from benefits in a couple of positions.
- At the close of the fiscal year, the Non-Routine Maintenance division anticipates being under budget by approximately \$29k for materials and supplies. However, CIRA insurance costs are projected to reach \$112k, exceeding the budget by \$42k. This increase is attributed to the actual costs incurred for the wastewater treatment plant, which was completed in 2021.

With projected revenues of \$3.5 million and expenses of \$3.2 million, Staff projects the Wastewater Enterprise to end FY 2024 with a net position of \$26.1 million and reserves of \$2.1 million. The decline in reserves in fiscal year FY 17/18 is a result of the Wastewater treatment plant construction in addition to grant funds- seen below.



During the budget development, Staff identified a list of Capital Improvements Program (CIP) of \$16.6 million needed to improve the Fund's infrastructure. A collection system rehab of \$12 million is planned for FY 2024/25, with \$1.5 million of Capital improvements budgeted for this fiscal year.