

# FY 2023-24 Budget Update Manual

Tasks	Responsibility	Event/Due Date
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## **PHASE I – BUDGET PREPARATION**

Preliminary Budget Assumptions Identified	Financial Management	12/8/22
Preliminary Budget Assumptions & Draft Budget Calendar Presented to Managers Team (MT)	Financial Management	12/12/22
Preliminary Budget Assumptions & Draft Budget Calendar Presented to Executive Management Team (EMT)	Financial Management	1/9/23
Capital Improvement Program (CIP) – Annual Resource Forecast complete – review resources Needed to complete active CIP projects.	Engineering Project Management Office (PMO)	2/22/23
Preparation for Budget Kickoff / Training Session: <ul style="list-style-type: none"> <li>• Salary and benefits download to Excel worksheets</li> <li>• Develop line item worksheets with mid-year actual expense</li> </ul> Prepare/update budget instruction manual	Financial Management	1/11/23
Budget Kickoff / Training Session: <ul style="list-style-type: none"> <li>• Distribute budget instruction manual update</li> <li>• Conduct budget training session</li> <li>• Review submission deadlines</li> </ul>	Financial Management	1/18/23
<ul style="list-style-type: none"> <li>• Operating Divisional Budgets: New Position and Change to Existing Position Decision Packages Due to Human Resources (Laura Maravilla, Ext. 7007) with copies to Cristina Stanford</li> </ul>	Divisional Budget Coordinators	2/1/23
Operating Budget: Promotional Items Request Forms and Conference Request Forms Due to Public Affairs (Jennifer Cabral, Ext. 7581)	Divisional Budget Coordinators	2/1/23
Capital Equipment Budget: Vehicle Capital Equipment Decision Packages Due to Fleet Services (Bob Bell, Ext. 7214)	Divisional Budget Coordinators	2/1/23
Capital Equipment Budget: Computer Capital Equipment Decision Packages Due to Information Technology (Rob Michaels, Ext. 7260)	Divisional Budget Coordinators	2/1/23
Budget Assumptions Presented to Administration Committee	Financial Management	2/8/23
Mid-Year Financial Report to Administration Committee	Financial Management	2/8/23

# Budget Calendar

Division Budget Packages Due to Financial Management: <ul style="list-style-type: none"> <li>• Projection of 2022-23 actual operating costs</li> <li>• Proposed operating costs for 2023-24</li> <li>• Operating Budget Expense Detail</li> <li>• Meetings, Memberships and Training Requests</li> <li>• Capital Equipment Decision Packages (other than computer and vehicle decision packages which were due on 2/1/23)</li> <li>• New program decision packages</li> </ul> <i>(Financial Management will compile and provide PDF document to each division for printing and use during the budget review process. Finance Planning will update salary information into the Preliminary Division Budget Document.)</i>	Divisional Budget Coordinators	2/15/23
Mid-Year Financial Report to Board	Financial Management	2/22/23
Complete the Compilation of the Preliminary Division Budget Update Packages	Financial Management	2/22/23
CIP – Project Budget Reviews Complete	Engineering PMO	3/22/23
Department Budget Narrative – Updates of the Budget Executive Summary Due to Financial Management	Department Budget Coordinator	3/15/23
CIP – Validated CIP budgets delivered to IT/Finance	Engineering PMO	4/10/23

## **PHASE II - BUDGET REVIEW**

Divisional Budgets - Distribution of Preliminary Line Item Requested Budgets to Department Heads and Managers along with Analysis/Questions for Review	Financial Management	2/27/23
Operating Budget – Information on New Positions, Position Upgrades & Reclassifications Submitted to the General Manager	Human Resources	3/1/23
Operating Budget – Division Budget Review Meetings with Finance and Division Representatives	Financial Management & Division Representatives	3/6/23 – 3/10/23
Operating Budget - Completion of Preliminary Divisional Budgets and Compilation into Departmental Budgets	Financial Management	3/15/23
Operating Budget – Recommendations to General Manager	Financial Management	3/15/23
Final Operating Budget – General Manager Review of Budget Recommendations	Financial Management, General Manager, & Department Heads	3/20/23 – 3/23/23

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Capital Equipment Budget – Requests Reviewed & Approved	Financial Management, General Manager, & Department Heads	3/20/23 – 3/23/23
Operating Budget – Report of General Manager's Decisions on New Positions, Position Upgrades & Reclassifications Submitted to the Financial Management	General Manager	3/20/23
CIP – Approve Proposed CIP Budget	EMT	4/3/23
CIP – Operations Committee information item – Review of Proposed Budget	Engineering	5/3/23

## **PHASE III - BUDGET PRESENTATION**

Operating Budget – Presentation of Preliminary Budget Update by Division/Department to EMT	Financial Management	4/3/23
Operating Budget Update – Overview to Administration Committee	Financial Management	<b>4/12/23</b>
CIP – Final CIP Budget Document Preparation and Incorporation into Final Budget Document	Financial Management	4/19/23
CIP – Review draft of Final Budget Document pages with Engineering Planning & PMO	Financial Management	4/19/23
CIP – Section 8 Executive Summary complete	Engineering Planning	4/26/23
Initial – Proposed Budget finalized	Financial Management	4/28/23
General Manager's Budget Message Completed	General Manager/ Financial Management	5/1/23
Approval of General Manager's Budget Message	General Manager	5/8/23
Final - Proposed Budget to Printer	Financial Management	5/22/23

## **PHASE IV - BUDGET DELIBERATIONS**

Final Draft - Proposed 2023-24 Budget Update Presented to Committees	Financial Management	Ops – <b>6/7/23</b> Admin – <b>6/14/23</b>
Public Hearing & Board Adoption	Board of Directors	<b>6/28/23</b>

## **PHASE V – DISTRIBUTION OF BUDGET**

Final line item budget and equipment budgets posted in H:\ntglobal	Financial Management	7/3/23
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# Preliminary Budget Assumptions

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## 2023-24 Proposed Budget Assumptions

### *Economic Assumptions*

- Inflation for Orange County in FY 2023-24 is projected to be 6.6 percent based on the projected percentage change in consumer price index obtained from the June 2022 Economic and Business Review report prepared by Chapman University. This is 1.6 percent higher than the 5.0 percent inflation factor that was used for the FY2022-23 budget.

### *Revenue Assumptions*

- After a one-year rate increase postponement, OC San will resume following the Board approved Sewer Service Fee Rate Schedule, the single-family residence (SFR) rate will increase by 3.2 percent to \$358 in FY 2023-24.
- Note that each \$1 increase in the SFR rate generates approximately \$900,000 per year.
- The capital facilities capacity charge (CFCC) fee captures only those infrastructure costs that relate to additional capacity. The proposed CFCC fee to be approved by the Board in March 2023 will remain flat for FY 2023-24. Other infrastructure costs such as improved treatment, rehabilitation, refurbishment, and replacement, will be supported through user fees.
- Given the Facilities Master Plan adopted in December 2017, a rate study was completed in December 2022 to ensure that the CFCC fee methodology remains equitable and to confirm that an appropriate share of system costs would be recovered from new development.
- Due to recent enacted legislation, a follow-up to the rate study completed

in 2017 for the CFCC methodology was completed in 2020 for cost recovery for Accessory Dwelling Units (ADU).

- Revenues will be budgeted to reflect little growth in Equivalent Dwelling Unit (EDU) connections that have remained flat over the past five years.
- Permit user rates for flow will increase by 4.7 percent, Biochemical Oxygen Demand (BOD) will increase by 5.6 percent and Total Suspended Solids (TSS) will increase by 5.0 percent for FY 2023-24 based upon the Rate Study completed in December 2022.
- Annexation fees capture both the net current assets and the equivalent property tax allocations and will increase to \$6,767 per acre based upon the Rate Study completed in December 2022.
- Annexable property in OC San's service area sphere is minimal; consequently, no FY 2023-24 income from annexation fees is anticipated.
- Property tax revenues are preliminarily estimated to increase by approximately three percent from FY 2022-23 to FY 2023-24. A two percent annual increase in Assessed Value is authorized by the state constitution and is included in the increases noted above. The additional increase in assessed value is from authorized increases to market value when property is sold at a higher value.
- Earnings on the investment of OC San's operating cash and reserves will be budgeted at 1.0 percent of the average cash and investment balance projected for the fiscal year.
- No additional debt issuance is scheduled for FY 2023-24.

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## *Operating Assumptions*

- Operating expenses are expected to approximate the adopted FY 2022-23 budget of \$201.1 million.
- Average daily flows are projected at 185 mgd for FY 2022-23 and 185 mgd for FY 2023-24. The estimated FY 2022-23 daily flow is 180 mgd based on actuals for the first 5 months of the current FY, and reflects a decrease of 4 mgd.

## *Employee/Staffing Assumptions*

- Staffing level is expected to increase by 1 FTE in FY 2023-24. The total FY 2022-23 authorized staffing level is 647.00 FTEs, excluding Management Discretion positions.
- Vacant positions as of 12/31/2022 are budgeted at 50 percent of step 1 for the remainder of FY 2022-23 and at 100 percent of step 2 for FY 2023-24.
- New positions will be projected at 100 percent of step 1 for FY 2023-24.
- A 3.0 percent vacancy factor on authorized positions has been budgeted for FY 2023-24. The actual vacancy factor is currently running at 4.5 percent. This vacancy factor accounts for time spent for recruitment and turnover.
- The Memorandums of Understanding (MOUs) for the OCEA, the Local 501, and the Supervisor and Professional (SPMT) groups expire on June 30, 2022. Salary adjustments will be included in the budget for COLA based upon the current MOUs.
- Retirement costs for employees enrolled in OCERS Plan H are estimated at a rate of 13.47 percent of the employee's base salary for FY 2023-24, up from 13.46 percent in FY 2022-23. The rates

for Plan H include OC San's pickup of 3.5 percent of employees' required contributions. Employees enrolled in OCERS Plan B are estimated at a rate of 13.09 percent of the employee's base salary for FY 2023-24, down from 13.25 percent in FY 2022-23. All employees hired on or after January 1, 2013 are enrolled in OCERS Plan U and are estimated at a rate of 9.82 percent for FY 2023-24, down from 9.86 percent in FY 2022-23. Interns are not enrolled in OCERS, so their retirement benefits are calculated at 6.2 percent (FICA rate).

- Other employee benefits and insurances will be budgeted to increase in FY 2023-24 by moderate but yet to be determined amounts.

## *Materials, Supplies & Services Assumptions*

- The proposed operating budget will continue to reflect an emphasis on safety, security, and maintenance of plant assets and infrastructure.
- An amount equal to half of one percent of the Operating materials and services budget will be a contingency for prior year re-appropriations. Since the current year's budget lapses on June 30, a contingency is needed in the succeeding budget year for goods or services ordered at the end of one budget year but not delivered until the following year.
- An amount equal to 0.85 percent of the Operating materials and services budget will be the General Manager's contingency budget. These funds will be allocated to appropriate line items during the year after requests and justifications for unanticipated needs are approved by the General Manager.
- Resource needs for strategic initiatives will be included in the budget.

# Preliminary Budget Assumptions

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## *Capital Improvement Program Assumptions*

- The FY 2023-24 cash flow budget, based on the most current Validated Capital Improvement Program (CIP), is the target.
- The baseline CIP cash flow for FY 2023-24 is \$315.3 million.
- Continual evaluation of the CIP by Financial Management, Project Management Office and Planning may result in deferral or reduction of some projects and a resultant increase in O&M repair costs for materials and services, if the net cash flow impact is a decrease.
- For the first five months of FY 2022-23, \$57.3 million of the \$268.2 million CIP budget, approximately 21.4 percent, was expended.

## *Debt Financing*

- OC San will issue new debt in the form of Certificates of Participation (COP) as needed to fund the CIP and to maintain reserves.
- No additional new debt issuance is scheduled for FY 2023-24.
- Debt will only be used for CIP and capital expenses, not for operating expenses.
- Capital financing plans no longer include future borrowings over the next ten years as the approved user fee schedule is considered sufficient.
- Borrowing is proposed only for facilities which do not add capacity and that are funded by all users for replacement, rehabilitation, and improved treatment.
- Upon COP's becoming callable or maturing, a determination will be made as to the benefit of paying off the obligation or refinancing the debt.

- There is consideration of refunding the callable 2014A.

## *Reserve Assumptions*

The existing reserve policy is summarized as follows:

- A cash flow criterion will be established to fund operations, maintenance and certificates of participation expenses for the first half of the fiscal year, prior to receipt of the first installment of the property tax allocation and sewer service user fees which are collected as a separate line item on the property tax bill. The level of this criterion will be established as the sum of an amount equal to six months operations and maintenance expenses and the total of the annual debt (COP) service payments due in August each year.
- An operating contingency criterion will be established to provide for non-recurring expenditures that were not anticipated when the annual budget and sewer service fees were considered and adopted. The level of this criterion will be established at an amount equal to ten percent of the annual operating budget.
- A capital improvement criterion will be maintained to fund annual increments of the capital improvement program. The target level of this criterion has been established at one-half of the average annual capital improvement program over the next ten years.
- A catastrophic loss, or self-insurance, criterion will be maintained for property damage including fire, flood and earthquake, for general liability and for workers' compensation. This criterion is intended to work with purchased insurance policies, FEMA disaster

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reimbursements and State disaster reimbursements. The potential infrastructure loss from a major earthquake, of which OC San currently has limited outside insurance coverage of \$25 million, has been estimated to be as high as \$1.3 billion. The level of this criterion has been set at \$100 million should such a catastrophic event occur. This criterion amount will assist OC San with any short-term funding needs until Federal and State assistance becomes available.

- Accumulated capital funds will be set aside for certain specific, short-term capital improvements as the need and availability arise.
- A capital replacement/renewal criterion has been established to provide thirty percent of the funding to replace or refurbish the current collection, treatment and disposal facilities at the end of their useful economic lives. Based on the Facilities Evaluation Report completed in December 2017, the estimated replacement value of these facilities in FY 2022-23 is estimated to be \$3.85 billion for the collection facilities and \$7.75 billion for the treatment and disposal facilities. The initial criterion level has been established at \$75 million, which will be augmented by interest earnings and a small portion of the annual sewer user fee, in order to meet projected needs through the year 2032.
- Provisions of the various certificates of participation (COP) issues require debt service reserves to be under the control of the Trustee for that issue. These reserve funds are not available for the general needs of OC San and must be maintained at specified levels. The current level of required COP service reserves is projected to be \$75.8 million.

- Accumulated funds exceeding the levels specified by OC San policy will be maintained for future capital improvements and rate stabilization. These funds will be applied to future years' needs in order to maintain rates or to moderate annual fluctuations. There is no established target for this criterion.