FY 2021-22 Preliminary Budget Assumptions

Economic Assumptions

- Inflation for Orange County in FY 2021-22 is projected to be 1.8 percent based on the 2020 forecasted percentage change in consumer price index (CPI) obtained from Chapman University.

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 $4 (1.2 percent) to $343 in FY 2021-22, which is less than the projected CPI.
- 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 approved by the Board in March 2018 will increase by 7.5 percent for FY 2021-22. 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 2017 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 3.8 percent, Biochemical Oxygen Demand (BOD) will increase by 0.5 percent and Total Suspended Solids (TSS) will increase by 2.7 percent for FY 2021-22 based upon the Rate Study completed in December 2017.
- Annexation fees capture both the net current assets and the equivalent property tax allocations totaling $4,235 per acre.
- Annexable property in OC San's service area sphere is minimal; consequently, no FY 2021-22 income from annexation fees is anticipated.
- Property tax revenues are preliminarily estimated to increase by approximately three percent from FY 2020-21 to $102,034,000.

  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 2021-22.

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Operating Assumptions

- Operating expenses are expected to approximate the adopted FY 2020-21 budget of $174 million.

- Average daily flows are projected at 188 mgd for FY 2020-21 and 188 MGD for FY 2021-22. The FY 2020-21 flow projection of 188 mgd reflects an increase of 2 mgd from the actual for the first 5 months of the current year and equals the final actual flow for FY 2019-20.

Employee/Staffing Assumptions

- Staffing level is expected to remain relatively flat. The total FY 2020-21 authorized staffing level is 639.00 FTEs, excluding Management Discretion positions.

- Vacant positions as of 12/31/2020 are budgeted at 50 percent of step 1 for the remainder of FY 2020-21 and at 100 percent of step 2 for FY 2021-22.

- New positions will be projected at 100 percent of step 1 for FY 2021-22.

- A 3.0 percent vacancy factor on authorized positions has been budgeted for FY 2021-22. 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 Orange County Employees Association (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 Orange County Employees Retirement System (OCERS) Plan H are estimated at a rate of 13.22 percent of the employee's base salary for FY 2021-22, down from 13.24 percent in FY 2020-21. 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 11.23 percent of the employee's base salary for FY 2021-22, up from 11.11 percent in FY 2020-21. All employees hired on or after January 1, 2013 are enrolled in OCERS Plan U and are estimated at a rate of 9.88 percent for FY 2021-22, down from 10.02 percent in FY 2020-21. 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 2021-22 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.

Capital Improvement Program Assumptions

- The FY 2021-22 cash flow budget, based on the most current Validated Capital Improvement Program (CIP), is the target.

- The baseline CIP cash flow for FY 2021-22 is $241 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 Operations & Maintenance (O&M) repair costs for materials and services, if the net cash flow impact is a decrease.

- For the first five months of FY 2020-21, $51.3 million of the $147.6 million CIP budget, approximately 34.8 percent, was expended.

Debt Financing

- When required, OC San issues Certificates of Participation (COP) as needed to fund the CIP and to maintain reserves.

- COP debt will only be used for CIP and capital expenses, not for operating expenses.

- No additional new debt issuance is scheduled for FY 2021-22.

- Capital financing plans no longer include future borrowings over the next ten years as the approved user fee schedule is considered sufficient.

- Borrowing will be included 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 or paying off the callable 2011A issue, 2012 A/B issues and / or the 2018A maturing issue.

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 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 current replacement value of these facilities is estimated to be $3.56 billion for the collection facilities and $7.18 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 2030.
- ► 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 $170.8 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.