

Budget Assumptions Fiscal Year 2024-25 & 2025-26 (Preliminary)

Economic Assumptions

- The November 2023 12-month change for the Los Angeles-Long Beach-Anaheim consumer price index (CPI-U) is 2.8%. This is lower than the prior year CPI-U of 6.0% observed in November 2022. This trend is monitored during the budget process for significant changes.
- The December 2023 annual California Construction Cost Index (CCI) is 9.4%. This is comparable to the prior year CCI of 9.3% in December 2022.

Revenue Assumptions

- Revenues are budgeted per the OC San rate study completed in December 2022, which ensures equitable district fees and accurate system cost recovery from new development.
- In FY 2024-25, the Single-Family Residence (SFR) Rate will increase by \$13, or 3.6%, from \$358 to \$371, comparable with the CPI-U index.
- In FY 2025-26 the SFR Rate will increase by \$13, or 3.5%, from \$371 to \$384, comparable with the CPI-U index.
- The Capital Facilities Capital Charge (CFCC) fees are adjusted annually by the Construction Cost Index (CCI) released by the Engineering News Record (ENR). CFCC fees fund infrastructure for additional capacity. Other infrastructure is funded by user fees.
- OC San currently serves approximately 933,489 Equivalent Dwelling Unit (EDU) connections. No growth to the amount of EDU connections is anticipated in the budget.
- Permit user rates in the budget are included in the following table:

Permit User Fees	FY 2023-24	FY 2024-25	% Increase	FY 2025-26	% Increase
Flow – per million gallons	\$1,676.09	\$1,754.41	4.7%	\$1,836.37	4.7%
Biochemical Oxygen Demand (BOD) – per 1000 pounds	\$705.08	\$744.23	5.6%	\$785.55	5.6%
Suspended Solids (SS) – per 1000 pounds	\$815.51	\$855.92	5.0%	\$898.34	5.0%

- 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 is minimal and no fees from annexation are budgeted.
- Property tax revenues are budgeted to increase 2% annually. Proposition 13 limits the increase of the assessed value of properties to a maximum of 2% annually. However, these revenues can fluctuate with new construction and turnover of property ownership.

Budget Assumptions

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- Earnings on OC San cash and investment balances are budgeted at 1.0% of the average projected cash and investment balance each fiscal year.

Operating Assumptions

- The proposed operating budget continues to reflect an emphasis on safety, security, and maintenance of plant assets and infrastructure.
- Operating expenses are anticipated to approximate the adopted FY 2023-24 budget of \$215.4 million with general increases for inflation.
- Average daily flows are budgeted at 187 MGD for FY 2024-25 and 187 MGD for FY 2025-26. The FY 2023-24 projection of 187.8 MGD reflects an increase of 1.9 MGD from the final FY 2022-23 average daily flow of 185.9 MGD.

Personnel Assumptions

- Staffing levels are expected to remain consistent. The total FY 2023-24 authorized staffing level is 653 FTEs. Levels are reviewed during the budget process and adjustments are considered to accommodate new programs, operating efficiency, and administrative duties.
- Vacant positions are budgeted at step 1 for half of FY 2024-25 (50%) and a full year at step 2 for FY 2025-26 (100%). If a position is assumed to be hired in FY 2025-26 then the position is budgeted at step 2 for the full year (100%).
- New positions are budgeted at step 1 for FY 2024-25 and at step 2 for FY 2025-26.
- A vacancy factor of 4.0% on authorized positions is budgeted for FY 2024-25 and FY 2025-26. As of December 2023, the vacancy factor is trending at 7.2%. This factor accounts for the time that authorized positions remain vacant due to employee retirement, employee turnover and recruitment.
- Orange County Employees Retirement System (OCERS) costs are budgeted per employee based on each employees' plan. Plan H rates include OC San's pickup of 3.5% of employee contributions. Employees hired on or after January 1, 2013, are enrolled in OCERS Plan U. Interns do not participate in OCERS and are budgeted at 6.2% for Social Security contributions. The following table displays budgeted OCERS rates:

OCERS Plan	# Employees	FY 2023-24	FY 2024-25	% Change
Plan B	52	13.09%	12.81%	-0.28%
Plan H	191	13.47%	13.36%	-0.11%
Plan U	365	9.82%	9.97%	+0.15%

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- Cost-of-living-adjustments (COLA) for salaries are budgeted in line with current Memorandums of Understanding (MOU) for the Orange County Employees Association (OCEA), Local 501, and Supervisor and Professional (SPMT) groups. The COLA for FY 2024-25 is 3.5%.
- Employee insurance and other benefits are anticipated to increase. Increases will be determined during the budget process when additional information is available.

Materials, Supplies, & Services Assumptions

- The prior year re-appropriations contingency budget is set at 0.5% of the Operating materials and services budget. This contingency covers goods or services ordered before the end of the fiscal year that are not delivered until the following fiscal year.
- The General Manager's contingency budget is set at 0.85% of the Operating materials and services 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.

Capital Improvement Program (CIP) Assumptions

- CIP cash outflows are determined during CIP budget validation. The CIP budget will be reviewed and validated throughout the budget process. Preliminary cash outflows are projected based on the previously validated CIP as follows:
 - \$287.7 million in FY 2024-25 (preliminary projection)
 - \$290.4 million in FY 2025-26 (preliminary projection)
- CIP is evaluated continuously by Financial Management, Project Management Office, and Planning divisions at OC San. Project deferrals, changes, and priorities may impact the amount and timing of CIP cash flow and repair and maintenance costs in Operations.
- Through November 2023, \$78.7 million of the \$288.6 million FY 2023-24 CIP budget was expended (27.3%).

Debt Financing Assumptions

- 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.
- No additional new debt is anticipated over the next ten-years. The approved user fee schedule is considered sufficient to fund OC San operating and capital requirements.
- Financial management continues to monitor the debt program for potential interest savings opportunities through refunding or paying down existing debt.
- No additional debt proceeds are scheduled for FY 2024-25 or FY 2025-26.

Budget Calendar

Phase I: Budget Preparation

DATE	TASK / EVENT	RESPONSIBILITY
1/9/2024	Present preliminary budget assumptions and draft budget calendar to EMT and Managers	Finance
1/18/2024	Budget kickoff	All Budget Roles
2/1/2024	Forms due: <ul style="list-style-type: none"> • IT equipment • Promotional items • Training • Conference 	Budget Coordinators
2/8/2024	Forms due: <ul style="list-style-type: none"> • Memberships • Vehicle intake • Vehicle justification • Personnel • General capital equipment (CORF) 	Budget Coordinators
2/15/2024	Forms due: <ul style="list-style-type: none"> • Operating expense line-item 	Budget Coordinators
2/20/2024	Revenue budget complete for Director of Finance review	Finance
2/22/2024	CIP Engineering change control validation complete	Project Managers
3/14/2024	Division organization charts, performance results and performance measures due	Budget Coordinators
4/4/2024	Department narratives for Executive Summary due	EMT
5/29/2024	Draft 2-year budget book included in Committee agenda packet	Finance

Phase II: Budget Review

DATE	TASK / EVENT	RESPONSIBILITY
2/29/2024	Review of: <ul style="list-style-type: none"> • New position, Change to position, New classification 	Human Resources
Week of 3/4/2024	Division Operating Budget review meetings with Finance	Division Managers
3/7/2024	Final review of: <ul style="list-style-type: none"> • New position, Change to position, New classification 	General Manager
3/14/2024	Operating Budget recommendation to General Manager	Finance
Week of 3/18/2024	General Manager meetings to review Operating Budget recommendations and Capital Equipment requests	General Manager / Department Heads / Finance

Budget Calendar

3/21/2024 to 4/10/2024	CIP Program review meetings for Cash Flow, Adjustments, and incorporation of Capital Equipment	Engineering / Finance
3/27/2024	CIP projects budget review complete	PMO
4/11/2024	General Manager review of CIP recommendation	General Manager / Engineering / Finance
4/22/2024	CIP Budget recommendation presented to EMT	EMT
5/16/2024	General Manager budget message finalized	General Manager

Phase III: Budget Presentations

DATE	TASK / EVENT	RESPONSIBILITY
1/17/2024	Board Meeting: Budget Assumptions and Calendar	Finance
2/7/2024	Operations Committee: Mid-Year Financial Report	Finance
2/14/2024	Administration Committee: Mid-Year Financial Report	Finance
3/6/2024	Operations Committee: Revenues and Reserves	Finance
3/13/2024	Administration Committee: Revenue and Reserves	Finance
3/25/2024	Expenditures Overview to EMT	Finance
4/3/2024	Operations Committee: Expenditures Overview	Finance
4/10/2024	Administration Committee: Expenditures Overview	Finance
5/1/2024	Operations Committee: CIP Budget Overview	Engineering / Finance
5/8/2024	Administration Committee: CIP and Insurance Overview	Engineering / Finance

Phase IV: Budget Deliberations & Distribution

DATE	TASK / EVENT	RESPONSIBILITY
6/5/2024	Operations Committee: Proposed 2-Year Budget Final Draft	Finance
6/12/2024	Administration Committee: Proposed 2-Year Budget Final Draft	Finance
6/26/2024	Board Meeting: Public Hearing and Budget Adoption	Board of Directors
7/1/2024	Adopted Budget Posted and Available to OC San Employees	Finance