

Agenda Report

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SUBJECT:

PROPOSED FY 2020-21 AND FY 2021-22 BUDGET

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

- A. Reduce the approved Fiscal Year 2020-2021 Single Family Residential (SFR), Multi-Family Residential (MFR) rates, and Industrial Dischargers Charge for Use (see attachment) as follows:

	SFR*	MFR	SFR*	MFR
	<u>Approved</u>	<u>Approved</u>	<u>Proposed</u>	<u>Proposed</u>
July 1, 2020	\$343.00	\$240.10	\$339.00	\$237.30
July 1, 2021	\$347.00	\$242.90	\$343.00	\$240.10
July 1, 2022	\$351.00	\$245.70	\$347.00	\$242.90

*The SFR is the underlying rate for the Sanitation District's primary rate structure and as such other components of the rate structure will be adjusted accordingly.

- B. Approve the proposed Operating, Capital, Debt Service, and Self-Insurance Budgets for FY 2020-21 and FY 2021-22 as follows:

	FY 2020-21	FY 2021-22
Net Operating	\$ 174,315,516	\$ 174,470,159
Self-Insurance - Workers' Comp	\$ 780,000	\$ 800,000
Self-Insurance - Property & Gen. Liability	\$ 2,080,000	\$ 2,140,000
Net Capital Improvement Program	\$ 147,562,000	\$ 240,846,000
Debt/COP Service (1)	\$ 72,838,369	\$ 168,936,869
Intra-District Joint Equity Purchase/Sale(2)	\$ 3,500,000	\$ 3,500,000
Total	\$ 401,075,885	\$ 590,693,028

(1) Includes \$102,200,000 in maturing debt

(2) Cash to/from Revenue Area 14 (RA14) in exchange for capital assets to/from Consolidated Revenue Area 15 (RA15)

BACKGROUND

The Orange County Sanitation District (Sanitation District) FY 2020-21 and FY 2021-22 Proposed Budget is enclosed for the Board's consideration. The Budget has been presented to the Operations and Administration Committees at their regular June meetings in order to allow each Committee an opportunity to review the proposal prior to the June Board meeting.

Although each Committee had an opportunity to review the proposal, it remains the responsibility of the Administration Committee to recommend approval.

The Administration Committee recommended approval of the budget with no user fee increase for FY 2020-21, eliminating the 1.2% user fee increase included in the original budget proposal.

RELEVANT STANDARDS

- Produce Operating and CIP budgets every two years, with annual update

PROBLEM

The Sanitation District cannot maintain and monitor its financial condition, operations, and future capital improvements without examination and transparency into its resources, revenues, reserves, and outlays.

PROPOSED SOLUTION

Providing the Board of Directors with an understanding of the Sanitation District's resources will assist in the approval of the proposed two-year budget.

TIMING CONCERNS

The proposed two-year budget, effective July 1 of this year, has been finalized and is presented to the Board for adoption.

RAMIFICATIONS OF NOT TAKING ACTION

The Sanitation District will not be able to carry out its financial fiduciary duties beyond June 30, 2020.

ADDITIONAL INFORMATION

The second year of the two-year budget is being proposed at \$591 million, or approximately \$190 million more than the first-year proposed amount of \$401 million. This increase is primarily due to potentially paying off \$102 million in callable debt and the 2020-21 and 2021-22 cashflow requirements of the Sanitation District's Capital Improvement Program, \$148 million and \$241 million, respectively.

The Administration Committee recommended approval of the budget with no user fee increase for FY 2020-21, eliminating the 1.2% user fee increase included in the original budget proposal. Foregoing

the FY 2020-21 user fee increase and resuming annual 1% rate adjustments in 2021-22 will result in a \$71 million loss in revenue to the Sanitation District over the next ten years.

Staff has determined that the most effective means of mitigating this revenue loss without impacting existing capital or operating programs is through adjustments in the Sanitation District's Debt Program. Therefore, staff recommends addressing this revenue loss by removing the planned early debt repayment from the budget and continuing regularly scheduled payments. As the debt issuance has a relatively low interest rate (3.5%), the savings associated with an early repayment would have been minimal. Additionally, the debt issuance could be refunded or rolled into another debt issuance in the future, generating similar savings.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- Agenda Report - Administration Committee 06/10/2020
- Budget Presentation - FY 2020-21 & FY 2021-22 Administration Committee 06/10/2020
- Proposed FY 2020-21 & FY 2021-22 Executive Budget Summary
- Proposed FY 2020-21 & FY 2021-22 Budget (*separate electronic file*)