EAST BAY
MUNICIPAL UTILITY DISTRICT

Mid-Cycle Budget Update

Fiscal Years 2020 & 2021

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FY20 & FY21 MID-CYCLE BUDGET UPDATE
EXECUTIVE SUMMARY

The Board of Directors adopts a biennial budget that includes operating and capital appropriations, rates and charges and staffing changes for two fiscal years. A mid-cycle update occurs in May of the first fiscal year when the Board affirms the second year of the budget. Year-end revenue and expense projections and any emerging financial or staffing issues are presented to the Board as outlined in this report. The District, similar to the rest of the world, is in uncharted waters as it wrestles with the uncertainty and evolving impacts of the COVID-19 pandemic. This report includes projections that consider potential pandemic fiscal impacts.

Overview

On June 11, 2019 the Board adopted the Fiscal Years 2020 (FY20) & 2021 (FY21) biennial budget for the Water and Wastewater Systems. The FY21 budget appropriations are shown in the following table.

FY21 APPROPRIATIONS ($ Millions)

	Water	Wastewater	Total
Operations	315.4	78.6	393.9
Debt Service	217.7	29.8	247.5
Capital	352.3	41.8	394.1
Total	**885.4**	**150.2**	**1,035.6**

The budget focuses on the Strategic Plan priorities of investing in the rehabilitation and maintenance of aging infrastructure and long-term financial stability. In support of infrastructure investments, upgrades to water treatment plants and supply reservoirs are helping to improve water quality by lowering disinfection byproducts. Progress continues to be made in the Pipeline Rebuild program which replaces distribution pipelines and large diameter transmission pipelines as the system is nearly 100 years old. Lead testing for K-12 schools is complete, and the lead voucher program and service line inventory are underway. Wastewater treatment plant infrastructure improvements are underway to ensure the strong record of regulatory compliance continues. In support of long-term financial stability, $24.0 million of the outstanding variable rate commercial debt for the Water System, and $5.0 million for the Wastewater System was paid down using Fiscal Year 2019 available year-end funds to reduce future debt payments.

COVID-19 Pandemic

On March 17, 2020, the District declared an emergency to ensure its ability to respond rapidly to the changing circumstances related to COVID-19. While much is still evolving at the time of this report, the year-end projections include assumptions of the associated impacts from this emergency which will be greater in FY21 than FY20. The projected impacts include:

- Lower water demand
- Increased delinquencies
- Increased need for customer assistance
- Decreased development
- Lower interest rates on investments
- Deferral/partial suspension of capital projects

Budget Performance

Projections for FY20 show both systems ending the fiscal year with positive net revenue. Due to the continuously changing data resulting from COVID-19, two scenarios were analyzed for FY21 to evaluate the potential fiscal impacts.

Water System Operating

Fiscal Year 2020
In FY20, Water System net revenue is projected to be approximately $40.0 million primarily from System Capacity Charges (SCC) revenue above budget combined with expense savings in operations and debt service.

Water System FY20 Year-end Projection ($ Millions)

	Amended Budget	Year-end Projection	Over/(Under) Budget
Revenues	663.2	674.3	11.0
Operating Expenses	531.4	502.4	(29.0)
∆ to Net Revenue	**-**	**-**	**40.0**

Fiscal Year 2021
The fiscal impacts associated with COVID-19 are contingent upon multiple variables. The resulting pandemic conditions have different budgetary implications for FY21. This report includes an analysis that assesses two scenarios ranging from a return to normal conditions with less severe impacts to a scenario with more severe impacts.

In FY21, Water System net revenue is projected to be negative under both scenarios primarily from declining Water Charges and SCC revenues ranging from approximately ($8.1) million in Scenario A to ($66.3) million in Scenario B.

Water System FY21 Year-end Projections ($ Millions)

		Scenario A		Scenario B	
	Adopted Budget	Year-end Projection	Over/(Under) Budget	Year-end Projection	Over/(Under) Budget
Revenues	703.9	658.6	(45.3)	624.5	(79.4)
Operating Expenses	533.1	495.9	(37.2)	520.0	(13.1)
∆ to Net Revenue	**-**	**-**	**(8.1)**	**-**	**(66.3)**

The scenarios shown above are based on the adopted 6.25 percent rate increase effective on July 1, 2020 in addition to the following assumptions:

Scenario A
- Decrease in water sales: 2% in residential and 30% in commercial/institutional
- 37.5% loss of budgeted SCC revenue
- Normal operations, and no field staff rotation necessary

Scenario B

- Decrease in water sales: 5% in residential and 50% in commercial/institutional
- 62.5% loss of budgeted SCC revenue
- 12th Pipeline Rebuild crew deferred until FY22
- Backfill only for operational necessity, and six months of a field staff rotation

The fiscal impacts resulting from COVID-19 are still evolving. Staff will closely monitor the fiscal impacts and update the Board of adaptive management budget strategies taken such as a drawdown of rate stabilization funds.

Water System Capital

FY20 planned cash flow spending totals $337.7 million, and spending is projected to be $276.0 million, or 82 percent, due to reduced spending on replacing service laterals, rehabilitating large-diameter pipelines, delays in pressure zone improvement projects, and the deferral of non-essential work during the fourth quarter due to the COVID-19 pandemic.

In FY20, the major Water System capital projects include:

- Upgrades to water treatment plants
- Replacement of deteriorated pipelines
- Installing new services
- Rehabilitation of pumping plants
- Rehabilitation and maintenance of supply reservoirs

In FY21, cash flow spending is expected to be close to the plan unless revenues are significantly less than budget. In that case, capital projects will be reviewed and spending will be less than planned as work is suspended and deferred.

Wastewater System Operating

Fiscal Year 2020
In FY20, Wastewater System net revenue is projected to be approximately $6.2 million, primarily from higher Wastewater Capacity Charges (WCF) revenue and operations expense savings.

Wastewater System FY20 Year-end Projection ($ Millions)

	Amended Budget	Year-end Projection	Over/(Under) Budget
Revenues	140.2	141.0	0.8
Operating Expenses	110.3	104.9	(5.4)
∆ to Net Revenue	**-**	**-**	**6.2**

Fiscal Year 2021
The fiscal impacts associated with COVID-19 are contingent upon multiple variables for the Wastewater System. The resulting pandemic conditions have different budgetary implications for FY21. This report includes an analysis that assesses two scenarios ranging from a return to normal conditions with less severe impacts to stronger impacts.

Similar to the FY21 Water System analysis, Wastewater System net revenue is projected to be negative under both scenarios primarily from declining Treatment Charges/Permit Fees and Wastewater Capacity Charges (WCF) revenue ranging from approximately ($2.8) million in Scenario A to ($8.7) million in Scenario B.

Wastewater System FY21 Year-end Projections ($ Millions)

		Scenario A		Scenario B	
	Adopted Budget	Year-end Projection	Over/(Under) Budget	Year-end Projection	Over/(Under) Budget
Revenues	144.4	135.9	(8.5)	130.7	(13.7)
Operating Expenses	108.4	102.7	(5.7)	103.4	(5.0)
Δ to Net Revenue	**-**	**-**	**(2.8)**	**-**	**(8.7)**

The scenarios shown above are based on the adopted 4 percent rate increase effective on July 1, 2020 in addition to the following assumptions:

Scenario A
- Decrease in treatment charges: 2% in residential and 30% in commercial/institutional
- 37.5% loss of budgeted WCF revenue
- Normal operations, and no staff rotation

Scenario B
- Decrease in treatment charges: 5% in residential and 50% in commercial/institutional
- 3.5% decrease in Wet Weather revenue
- 62.5% loss of budgeted WCF revenue
- Backfill only for operational necessity, and six months staff rotation

The fiscal impacts resulting from COVID-19 are still evolving. Staff will closely monitor the fiscal impacts and update the Board of adaptive management budget strategies taken.

Wastewater System Capital

FY20 planned cash flow spending totals $48.5 million, and spending is projected to be $41.0 million or 85 percent of the plan primarily due to delays in rehabilitating infrastructure at the wastewater treatment plant, rehabilitating the 3rd Street Sewer Interceptor, and making improvements to the Power Generation Station.

In FY20, the major Wastewater System capital projects include:

- Rehabilitation of the wastewater treatment plant infrastructure and equipment
- Rehabilitation of sewer interceptors and pump stations

In FY21, cash flow spending is expected to be close to the plan unless revenues are significantly less than budget. In that case, capital projects will be reviewed and spending will be less than planned as work is suspended and deferred.

Staffing

The adopted FY21 budget authorized the deletion of two Limited–Term Full-time Equivalents (FTEs) in the Water System, and did not authorize any staffing changes for the Wastewater System. No additional staffing changes are recommended.

Rates

No change is recommended to the adopted FY21 rate increase of 6.25 percent for the Water System and 4.0 percent for the Wastewater System in order to provide customers with the high level of service, water quality and system reliability as outlined in the adopted budget.

Water Supply

The April Water Supply Availability and Deficiency Report projects that at the end of September 2020 total system storage will be 610 thousand acre-feet, which is deemed to be sufficient to meet customer demands and all required downstream obligations.

WATER SYSTEM

FISCAL YEAR 2020

In FY20, Water System net revenue is projected to be approximately $40.0 million primarily from System Capacity Charges (SCC) revenue above budget combined with expense savings in operations and debt service.

Water System FY20 Year-end Projection ($ Millions)

	Amended Budget	Year-end Projection	Over/(Under) Budget
Consumption (MGD)	141.0	139.7	(1.3)
Operating Revenues			
Water Charges	543.5	539.7	(3.8)
Property Taxes	35.0	35.0	0.0
Power Sales	5.0	6.1	1.1
Interest Income	9.3	12.0	2.7
SCC Revenues	40.0	51.0	11.0
Reimbursements	12.2	12.3	0.1
All Other Revenue	18.2	18.2	0.0
TOTAL	**663.2**	**674.3**	**11.0**
Operating Expenses			
Operations	299.2	279.9	(19.3)
Debt Service	232.2	222.5	(9.7)
TOTAL	**531.4**	**502.4**	**(29.0)**
∆ to Net Revenue	**-**	**-**	**40.0**

The projection is based on the following assumptions:

- Revenues
  - 2% decrease in residential water sales revenue for three months
  - 50% decrease in commercial/institutional water sales revenue for three months
- Expenses
  - Higher operations costs due to COVID-19 such as the implementation of field staff on rotation which a portion normally performs capital-related work but due to the pandemic the associated labor costs were charged to operating

Revenues

Total operating revenues are projected to be $11.0 million greater than budget since all revenue sources are anticipated to be at or above budget except Water Charges.

- Water Charges are projected to be $3.8 million less than budget based on billed consumption of 139.7 million gallons per day (MGD) compared to budget of 141.0 MGD.

Revenues (continued)

- Interest Income is projected to be $2.7 million greater than budget due to a higher amount of funds available for reinvestment from bonds issued in FY19.
- SCC revenue is projected to $11.0 million greater than budget based on revenues received through the third quarter in spite of the shelter-in-place orders which largely impact the fourth quarter revenue.

Expenses

Total operating expenses are projected to be under budget by approximately $29.0 million due to savings in operations and debt service.

- Operations are projected to be $19.3 million less than budget due to lower energy costs; higher than budgeted administration of capital, which decreases operating expenses by a like amount; and unspent contingency. These savings are offset by higher unplanned operations costs due to COVID-19 such as the implementation of field staff on rotation that normally support capital-related work but was shifted to operations during the pandemic. Another example of higher operations expenses that were unknown at the time of the biennial budget development are the generator rentals and associated fuel for the Public Safety Power Shutoffs (PSPS).
- Debt Service is projected to be $9.7 million less than budget due to lower interest rates than assumed in the budget and savings from the partial pay down of commercial paper.

Year-End Strategies

The District is in a stronger financial position due to its prudent management of debt and expenses. Due to the changing impacts related to COVID-19, development of year-end strategies will be reevaluated towards the close of the fiscal year.

Capital Budget

The Board approved the Water System FY20 - FY24 five-year Capital Improvement Program (CIP) and adopted capital appropriations for the first two years. Appropriations fund capital projects that may extend over multiple years, while cash flows reflect the amount to be spent in a given year. Rates are based in part on planned cash flow expenditures.

FY20 cash flow spending is projected to be approximately $276.0 million, or 82 percent of plan, due to:

- Reduced spending on replacing service laterals
- Reduced spending on rehabilitating large diameter pipelines
- Delays in several pressure zone improvement projects
- Deferral of non-essential capital work during the fourth quarter due to the pandemic

FISCAL YEAR 2021

In FY21, Water System net revenue is projected to be negative under both scenarios shown in this report, which range from approximately ($8.1) million in Scenario A to ($66.3) million in Scenario B primarily due to lower Water Charges and SCC revenues as a result of the COVID-19 pandemic.

Water System FY21 Year-end Projections ($ Millions)

		Scenario A		Scenario B	
	Adopted Budget	**Year-end Projection**	**Over/(Under) Budget**	**Year-end Projection**	**Over/(Under) Budget**
Consumption (MGD)	143.0	135.6	(7.4)	128.8	(14.2)
Operating Revenues					
Water Charges	582.5	559.0	(23.5)	536.4	(46.1)
Property Taxes	35.8	35.0	(0.8)	35.0	(0.8)
Power Sales	5.0	5.0	0.0	5.0	0.0
Interest Income	9.6	3.6	(6.0)	3.3	(6.3)
SCC Revenues	40.0	25.0	(15.0)	15.0	(25.0)
Reimbursements	12.6	12.6	0.0	12.6	0.0
All Other Revenue	18.4	18.4	0.0	17.2	(1.2)
TOTAL	**703.9**	**658.6**	**(45.3)**	**624.5**	**(79.4)**
Operating Expenses					
Operations	315.4	282.8	(32.6)	306.9	(8.5)
Debt Service	217.7	213.1	(4.6)	213.1	(4.6)
TOTAL	**533.1**	**495.9**	**(37.2)**	**520.0**	**(13.1)**
∆ to Net Revenue	**-**	**-**	**(8.1)**	**-**	**(66.3)**

The scenarios shown above are based on the following assumptions:

Scenario A

- Adopted 6.25% rate increase effective July 1st
- 2% decrease in residential water sales revenue for 12 months
- 30% decrease in commercial/institutional water sales revenue for 12 months
- 37.5% loss of budgeted SCC revenue
- Backfill all positions, normal level of retirements and no field staff rotation

Scenario B

- Adopted 6.25% rate increase effective July 1st
- 5% decrease in residential water sales revenue for 12 months
- 50% decrease in commercial/institutional water sales revenue for 12 months
- 62.5% loss of budgeted SCC revenue
- 12th Pipeline Rebuild crew deferred until FY22
- Backfill only for operational necessity, fewer retirements and six months field staff rotation

Revenues

Total operating revenues are projected to be less than budget under both scenarios ranging from approximately ($45.3) million in Scenario A to ($79.4) million in Scenario B primarily due to Water Charges, SCC and to a lesser degree Interest Income projected to be under budget.

- Water Charges are projected to be $23.5 million less than budget in Scenario A, and $46.1 million less in Scenario B based on billed consumption of 135.6 MGD and 128.8 MGD, respectively, compared to a budget of 143.0 MGD.
- Interest Income is projected to be $6.0 million less than budget in Scenario A, and $6.3 less in Scenario B due to lower yields on investments than budgeted.
- SCC revenues are projected to be $15.0 million less than budget in Scenario A, and $25.0 million less in Scenario B due to an assumed decline in development as a result of the COVID-19 pandemic. The decline in Scenario B is anticipated to be stronger than in Scenario A similar to the level of revenues collected during the nationwide economic collapse in the last decade.

Expenses

Total operating expenses are projected to be under budget in both scenarios ranging from approximately $37.2 million in Scenario A to $13.1 million in Scenario B due to savings in operations and debt service.

- Operations are projected to be $32.6 million less than budget in Scenario A, and $8.5 million less in Scenario B due to higher than budgeted administration of capital which offsets operating expenses by a like amount, unspent contingency and lower non-labor expenses. Scenario B assumes a six month field staff rotation which shifts labor costs from capital to operating thus increasing operating expenses. Lower labor costs are assumed in Scenario B due to the delay in hiring the 12th Pipeline Rebuild crew until FY22 and backfilling only operational necessity positions.
- Debt Service is projected to be $4.6 million less than budget in both scenarios due to lower interest rates than assumed in the budget.

The fiscal impacts resulting from COVID-19 are still evolving. Staff will closely monitor the fiscal impacts and update the Board on adaptive management budget strategies, such as a drawdown of rate stabilization funds.

Year-End Strategies

The District is in a stronger financial position due to its prudent management of debt and expenses. Due to the changing impacts related to COVID-19, development of year-end strategies will be reevaluated towards the close of the fiscal year.

Capital Budget

Cash flow spending will be less than the $345.0 million planned if revenues are significantly reduced as capital projects would need to be suspended and deferred.

Staffing

The FY21 adopted budget authorized the deletion of two Limited-Term positions in the Water System as shown in the below table. The deletions are the result of program completion and workload efficiencies. No additional staffing changes are recommended.

FY21 Staffing Changes

Project/Program	Job Classification	FTE	Dept	Unit
Completion of school lead sampling	(LT) Water System Inspector I/II	(1.0)	WOD	2019
Workload efficiencies	(LT) Administrative Clerk, Conf.	(1.0)	HRD	Mgmt / Conf.

Rates

No change is recommended to the adopted FY21 rate increase of 6.25 percent.

WASTEWATER SYSTEM

FISCAL YEAR 2020

In FY20, the Wastewater System net revenue is projected to be approximately $6.2 million primarily due to savings in operations and debt service expenses.

Wastewater System FY20 Year-end Projection ($ Millions)

	Amended Budget	Year-end Projection	Over/(Under) Budget
Operating Revenues			
Treatment Charges & Permits	79.3	77.8	(1.5)
Property Taxes	5.4	5.4	0.0
Wet Weather	27.5	27.5	0.0
Resource Recovery	10.0	12.0	2.0
Interest Income	2.4	2.4	0.0
Lab Services	4.4	4.4	0.0
Reimbursements	1.5	1.5	0.0
Capacity Charges (WCF)	4.0	5.2	1.2
All Other Revenue	5.7	4.8	(0.9)
TOTAL	**140.2**	**141.0**	**0.8**
Operating Expenses			
Operations	75.1	69.9	(5.2)
Debt Service	35.2	35.0	(0.2)
TOTAL	**110.3**	**104.9**	**(5.4)**
∆ to Net Revenue	**-**	**-**	**6.2**

The above projection is based on the following assumptions:

- Revenues
  - 2% decrease in residential treatment revenue for three months
  - 50% decrease in commercial/institutional treatment revenue for three months
- Expenses
  - Unlike the Water System, the cost of the staff rotation did not shift capital-related work to operating as only staff normally charged to operating were placed on the rotation

Revenues

Total operating revenues are projected to be greater than budget by approximately $0.8 million, primarily due to higher Resource Recovery and Capacity Charges (WCF) revenues, but are offset by lower Treatment Charges/Permit Fees.

- Treatment Charges/Permit Fees are projected to be $1.5 million less than budget based on the assumed decreases in treatment revenue.

- Resource Recovery is continuing above budget at $2.0 million which reflects the continuing success of the program despite competition.
- Capacity Charges (WCF) are projected to be $1.2 million above budget based on revenue received through the third quarter in spite of the shelter-in-place order which largely impacted the fourth quarter.

Expenses

Total operating expenses are projected to be under budget by $5.4 million primarily due to savings in operations and to a lesser degree debt service.

- Operations are projected to be $5.2 million less than budget due to the recruitment lead time to fill vacancies; higher than budgeted administration of capital which decreases operating expenses by a like amount; and unspent contingency. The expense savings are slightly offset due to higher costs for energy, workers compensation and insurance premiums.

Year-End Strategies

The District is in a stronger financial position due to its prudent management of debt and expenses. Due to the changing impacts related to COVID-19, development of year-end strategies will be reevaluated towards the close of the fiscal year.

Capital Budget

The Board approved the Wastewater System FY20 - FY24 five-year CIP and adopted capital appropriations for the first two years. Appropriations fund capital projects that may extend over multiple years, while cash flows reflect the amount to be spent in a given year. Rates are based in part on planned cash flow expenditures.

FY20 cash flow spending is projected to be $41.0 million or 85 percent of plan due to:

- Delays in upgrading the digesters
- Delays in treatment plant infrastructure work at the main wastewater plant
- Deferral of non-essential capital work during the fourth quarter due to the COVID-19 pandemic

FISCAL YEAR 2021

In FY21, Wastewater System net revenue is projected to be negative under both scenarios, ranging from approximately ($2.8) million in Scenario A to ($8.7) million in Scenario B primarily due to lower revenues for Treatment Charges/Permit Fees, Interest Income, and Capacity Charges (WCF) due to the COVID-19 pandemic.

Wastewater System FY21 Year-end Projections ($ Millions)

		Scenario A		Scenario B	
	Adopted Budget	Year-end Projection	Over/(Under) Budget	Year-end Projection	Over/(Under) Budget
Operating Revenues					
Treatment Charges & Permits	82.5	78.3	(4.2)	75.1	(7.4)
Property Taxes	5.6	5.4	(0.2)	5.4	(0.2)
Wet Weather	28.5	28.5	0.0	27.5	(1.0)
Resource Recovery	10.0	10.0	0.0	10.0	0.0
Interest Income	2.1	0.5	(1.6)	0.5	(1.6)
Lab Services	4.5	4.5	0.0	4.5	0.0
Reimbursements	1.5	1.5	0.0	1.5	0.0
Capacity Charges (WCF)	4.0	2.5	(1.5)	1.5	(2.5)
All Other Revenue	5.7	4.7	(1.0)	4.7	(1.0)
TOTAL	**144.4**	**135.9**	**(8.5)**	**130.7**	**(13.7)**
Operating Expenses					
Operations	78.6	73.1	(5.5)	73.8	(4.8)
Debt Service	29.8	29.6	(0.2)	29.6	(0.2)
TOTAL	**108.4**	**102.7**	**(5.7)**	**103.4**	**(5.0)**
Δ to Net Revenue	**-**	**-**	**(2.8)**	**-**	**(8.7)**

The above projections are based on the following assumptions:

Scenario A

- Adopted 4.0% rate increase effective July 1st
- 2% decrease in residential treatment revenue for 12 months
- 30% decrease in commercial/institutional treatment revenue for 12 months
- 37.5% loss of budgeted WCF revenue
- Backfill all positions, normal retirements and no staff rotation

Scenario B

- Adopted 4.0% increase effective July 1st
- 5% decrease in residential treatment revenue for 12 months
- 50% decrease in commercial/institutional treatment revenue for 12 months
- 3.5% decrease in Wet Weather revenue
- 62.5% loss of budgeted WCF revenue
- Backfill only for operational necessity, fewer retirements and six month staff rotation

Revenues

Total operating revenues are projected to be less than budget under both scenarios ranging from approximately ($8.5) million in Scenario A to ($13.7) million in Scenario B primarily due to Treatment Charges/Permit Fees, Interest Income and Capacity Charges (WCF) revenue less than budget based on the assumptions outlined above.

- Treatment Charges/Permit Fees are projected to be $4.2 million less than budget in Scenario A, and $7.4 million less in Scenario B based on the assumed decreases in revenue.
- Interest Income is projected to be $1.6 million less than budget under both scenarios due to lower yields on investments.
- Capacity Charges (WCF) are projected to be $1.5 million less than budget in Scenario A, and $2.5 million less in Scenario B due to an assumed decline in development.

Expenses

Total operating expenses are projected to be under budget by $5.7 million in Scenario A and $5.0 million in Scenario B primarily due to savings in operations and to a lesser degree debt service.

- Operations are projected to be less than budget in both scenarios due to higher than budgeted administration of capital which decreases operating expenses by a like amount; and unspent contingency. Lower labor costs are assumed in Scenario B due to backfilling only operational necessity positions.

The fiscal impacts resulting from COVID-19 are still evolving. Staff will closely monitor the fiscal impacts and update the Board on adaptive management budget strategies.

Year-End Strategies

The District is in a stronger financial position due to its prudent management of debt and expenses. Due to the changing impacts related to COVID-19, development of year-end strategies will be reevaluated towards the close of the fiscal year.

Capital Budget

Cash flow spending will be less than the $46.0 million planned if revenues are significantly reduced as capital projects would need to be suspended and deferred.

Staffing

The FY21 adopted budget did not authorize any Wastewater System staffing changes.

Rates

No change is recommended to the adopted FY21 rate increase of 4.0 percent.