

# FY 2018-19 Budget Process Overview and Financial Liability Discussion

December 12, 2017



- **Budget Process Overview**
  - Authority
  - Financial Planning Process
  - Budget Principles
  - FY2018-19 Budget Development Schedule
- **Budget Assumptions**
  - Revenue
  - Expenditures
- **Liability Discussion**
- **Next Steps**

# What Authorizes Financial Processes?

## ▶ **District Act:**

- ▶ **Section 13:** Taxation – Empowers the board, in any year, to levy taxes or assessments in the district.
- ▶ **Section 20:** Adoption of Budget – Requires the board to adopt the budget not later than June 30 of each year.
- ▶ **Section 26:** Ground Water Charges - Empowers the board to levy and collect a ground water charge.

# What Authorizes Financial Processes?

## Board Governance Policies

### ▶ **EL- 4 Financial Management**

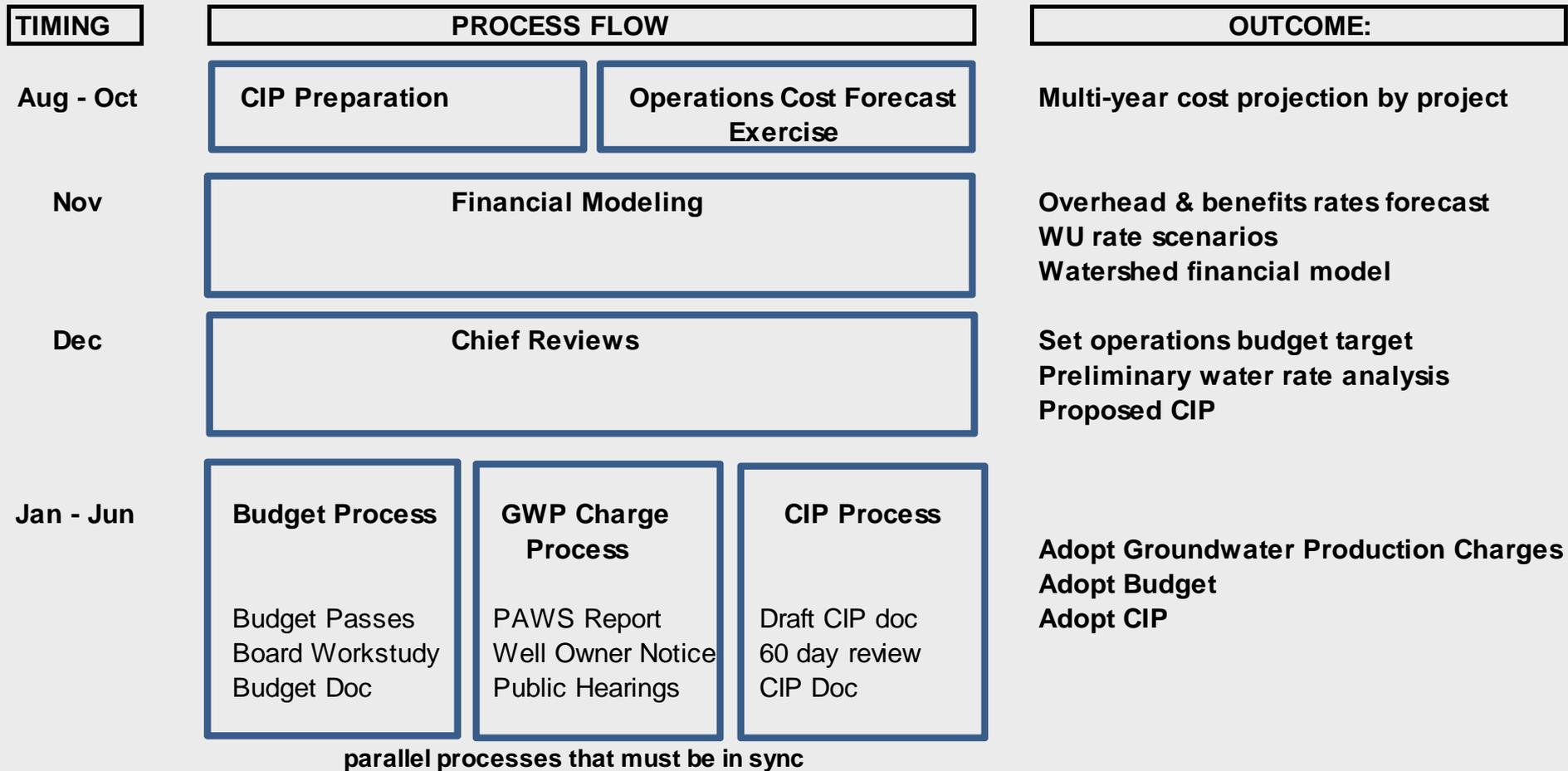
Financial planning for any fiscal year shall be aligned with the Board's Ends, not risk fiscal jeopardy, and be derived from a multi-year plan. With respect to the actual, ongoing financial condition and activities, the BAOs shall provide for the development of fiscal sustainability.

### ▶ **Planning and Budgeting**

**EL- 4.3** Include credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.

**EL- 4.4** Plan the expenditure in any budget period within the funds that are conservatively projected to be received or appropriated from reserves in that period.

# Financial Planning Process Flow



# Budget Principles

- **Continue to evaluate the budget process and implement ways to improve**
- **Check in and seek guidance from the Board at regular intervals throughout budget development**
- **Propose a balanced budget that incorporates the Board's Budget Priorities for FY2018-19**

# FY 2018-19 Budget Schedule for Board

## **Board Budget Development Updates:**

- February 13, 2018 – Budget Update
- March 27, 2018 – Second Pass Results
- April 25 to 27, 2018 – Board Work Study Sessions

## **Groundwater Production Charge Updates/Hearings:**

- January 9, 2018
- February 13, 2018
- April 10 to 24, 2018

## **Capital Improvement Plan Board Updates:**

- January 9, 2018
- February 27, 2018

## **Budget Adoption: (Budget, GWP and CIP)**

- May 8, 2018

# FY 2018-19 Budget Assumptions

## Revenue:

- Anticipate a water rate increase due to aggressive capital program
- Property Taxes (1% Ad Valorem) projected for FY2018-19 at \$92.4M, an increase of \$5.1M or 6% greater than FY2017-18
- Investment Income projected at \$4.0M, the same as FY2017-18

## Debt Financing:

- Anticipate issuance for Water Utility and Safe, Clean Water programs

## Expenditures:

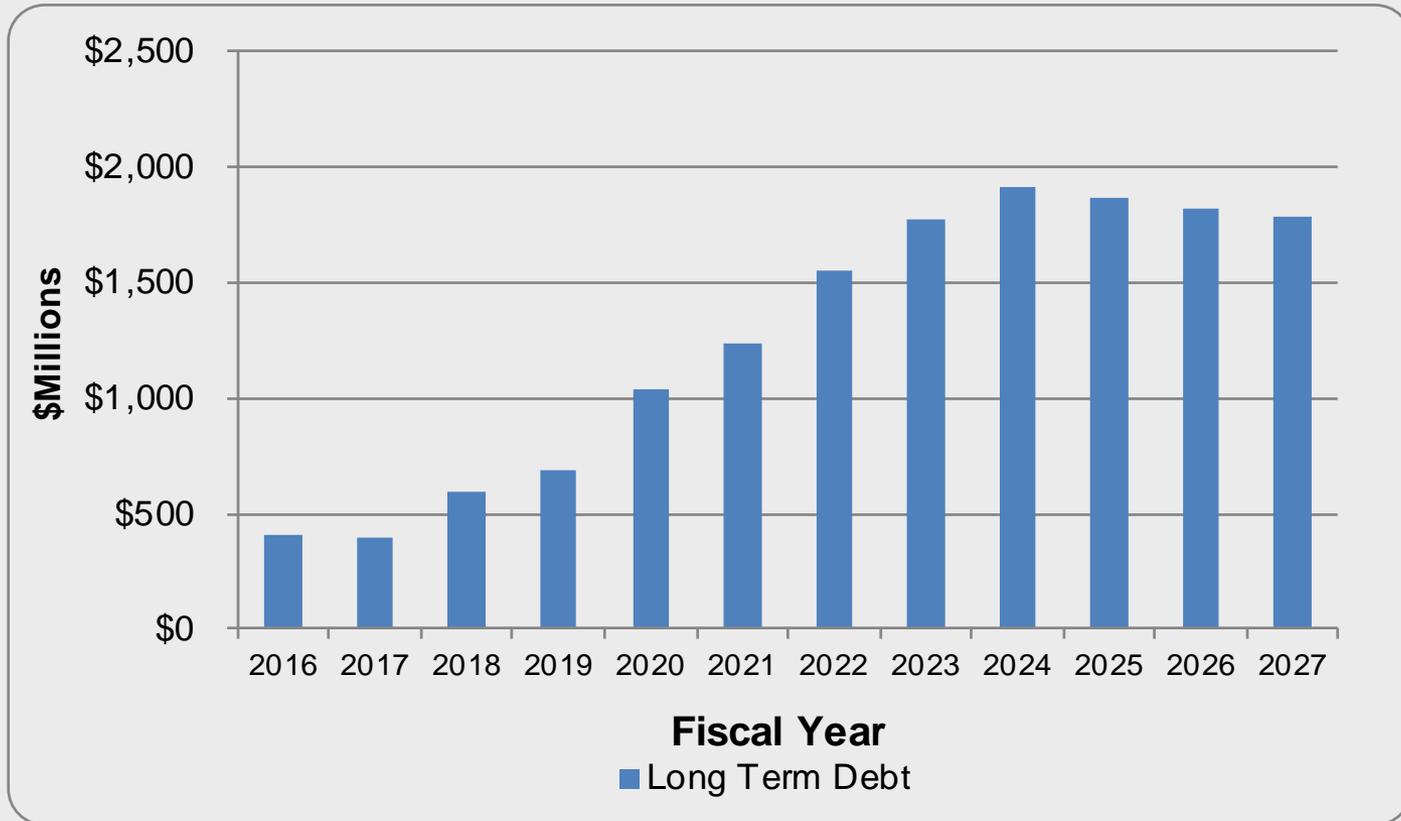
- Funding the 809 positions approved in the FY2017-18 Budget
- New positions considered in the 2<sup>nd</sup> and 3<sup>rd</sup> passes if affordability permits and demand exists
- Benefit package comparable to FY2017-18 (adjustments, if any, will be based on current contract negotiations)

# Liabilities as of Year-End FY 17

	<u>\$M</u>
<b>Water Utility Long Term Debt</b>	<b>394.7</b>
<b>Water Utility Short Term Debt</b>	<b>24.2</b>
<b>Watershed Long Term Debt</b>	<b>90.9</b>
<b>Unfunded Pension Liability</b>	<b>203.2</b>
<b>OPEB Unfunded Liability</b>	<b>77.6</b>
<b>Compensated Absences</b>	<b>13.5</b>
<b>Claims Payable</b>	<b>5.7</b>
<b>Semitropic Water Banking</b>	<b>4.5</b>
<b>Total</b>	<b><u>814.3</u></b>

Note: OPEB Unfunded Liability per FY 17 CAFR is \$105.9M based on July 2015 valuation

# Water Utility Debt Projection as of September 2017



# Rising CalPERS Pension Costs are a Concern

**FY 17 Unfunded Pension Liability = \$203.2M**  
based on a 7.65% discount rate

Unfunded Pension Liability		
<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>
\$149.5M	\$167.5M	\$203.2M

## Concerns

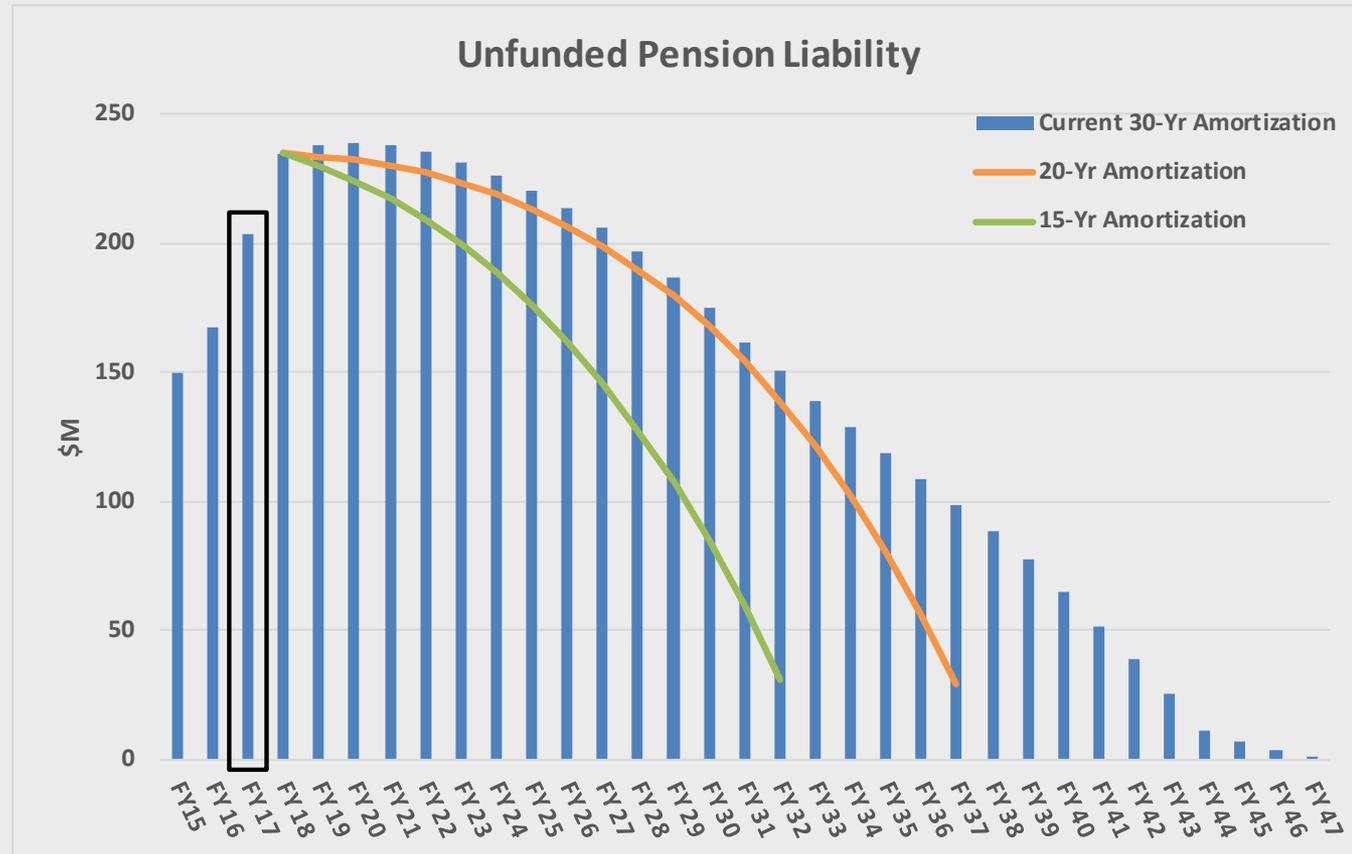
- Unfunded Pension Liability grew \$35.7M Vs FY 16, or \$53.7M Vs FY 15
- Funded % of Pension liability is 71.44% Vs 77.27% in FY 15
- Unfunded Liability payments are projected to grow from \$11.5M in FY 18 to \$25.8M in FY 25
  - Primarily due to reducing the discount rate to 7.0% by FY 21
  - CalPERS targeted annual return after July 2018 is 6.2%

# Rising CalPERS Pension Costs are a Concern

**Main solution:**  
Dedicate more resources toward pension liability

**An alternative:**

- a 20-year amortization would save \$48.2M
- 15-year amortization would save \$122.5M

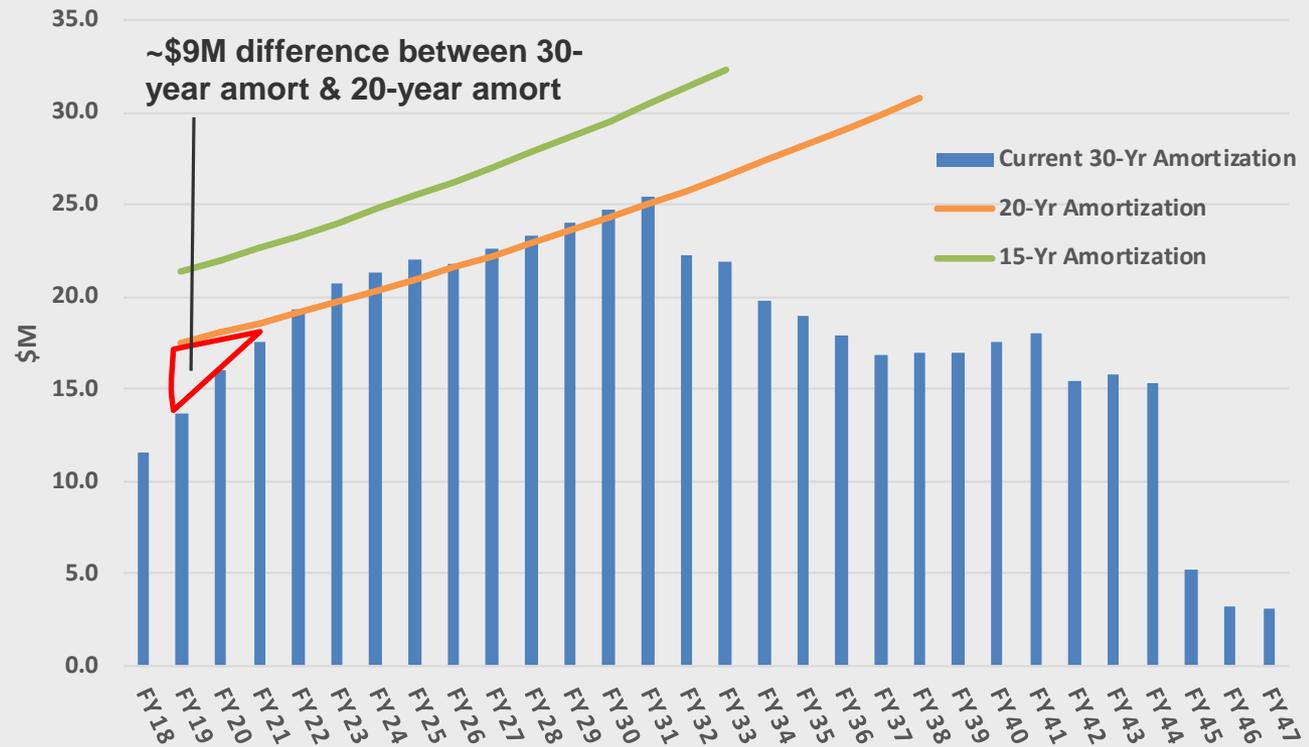


**A shorter amortization means larger annual pension payments, but quicker payoff for less**

# Rising CalPERS Pension Costs are a Concern

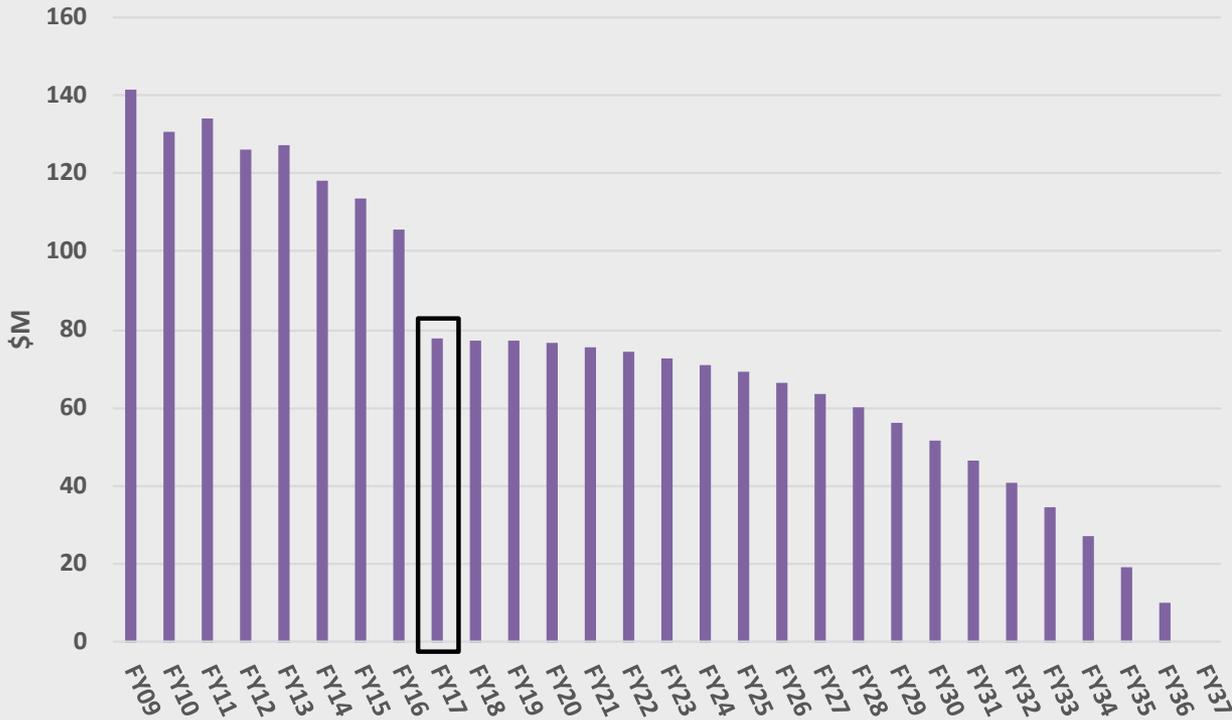
- Switching to 20-year amortization would cost ~\$9M between FY 19 and FY 21
- Switching to 15-year amortization would cost ~\$20M between FY 19 and FY 21, & an incremental ~\$5M per year until FY 31

Unfunded Accrued Liability (UAL) Contribution



# OPEB Unfunded Liability on Target for 2037 Payoff

OPEB Unfunded Liability



- FY 17 Unfunded OPEB Liability = \$77.6M
- OPEB Trust Fund contributions not required per latest actuarial study assuming 7.28% average annual earnings rate

# Next Steps

- **The Board finalizes FY2018-19 Budget Priorities**
- **Incorporate the Board's FY2018-19 Budget Priorities into development of the FY2018-19 Budget**
- **Staff kicks off the budget process internally on 12/13/17**

**THIS PAGE INTENTIONALLY LEFT BLANK**