



April 29, 2024

TO: LOCSD Board of Directors

FROM: Ron Munds, General Manager

SUBJECT: **Agenda Item 4 – 04/29/2024 FAC Meeting**
Preliminary Budget Review for Fiscal Year 2024-2025.

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DESCRIPTION

This report summarizes the preliminary budget for Fiscal Year 2024-2025. The final budget will be presented at the June 6th Board meeting.

STAFF RECOMMENDATION

Staff recommends the following:

- 1. Review and comment (as needed) on the budget for each Fund.**
- 2. Provide a recommendation(s) to the Board of Directors regarding the budget document.**

DISCUSSION

Staff has developed the Fiscal Year (FY) 2024-25 preliminary budget based on the best information available as of March 31, 2023. There are some upcoming changes that have impacts on the various funds, mostly property tax and other revenues for the various funds will be refined before final adoption of the budget by the Board, tentatively scheduled for the June 6th Board meeting.

Zone A Property Tax Allocation

Zone A is a designated tax allocation derived from the property taxes collected community-wide. The allocation of these funds during the budget process are left to the discretion of the Board and typically based on the needs of the District's various services and programs. The Board will consider the allocation of these funds at their May meeting. Once decided, the allocations will be included in the final budget.

Cost Allocation Plan

There will be an overall increase in the costs allocated to the various budgets based on the proposed increase in the Fund 100 budget which is discussed in detail in a following section of the report. Staff is not recommending change in the cost allocation percentages to each fund for the upcoming fiscal year. The following table shows the proposed cost allocation percentages and dollar amounts for all funds.

COST ALLOCATION PLAN									
FISCAL-YEAR 2024-2025									
TOTAL PROJECTED GENERAL FUND/ADMINISTRATION COSTS						\$753,887.50			
	FIRE	WATER	Solid Waste	PARK & REC	DRAINAGE	BAYRIDGE	VISTA DE ORO	WASTE WATER	TOTALS
Allocation Per Cent	10.50%	76.00%	10.00%	0.50%	2.00%	0.25%	0.25%	0.50%	100.00%
AMOUNT ALLOCATED	\$79,158.19	\$572,954.50	\$75,388.75	\$3,769.44	\$15,077.75	\$1,884.72	\$1,884.72	\$3,769.44	\$753,887.50

Fiscal Year 2024-2025 Preliminary Budget Summary

The following section of the report provides a summary of the preliminary 2024-2025 Fiscal Year budget by Fund. The more detailed line-item descriptions are provided as an attachment to the report. Changes, either increases or decreases in line-items are shaded so the reader can more easily identify the changes. Revenue numbers could change slightly based on refinements to the property tax projections and allocation of Zone A revenue as previously discussed.

Fund 100 – Administration

Major Requests: Increase in personnel costs related to the cost-of-living increase (COLA) for the Administrative Clerk, Administrative Services Manager (ASM) and General Manager (GM), increases in general employee costs such as medical and retirement contributions, added budget for the November election and increases in insurance costs.

Impact to Budget: Overall personnel costs increase by about \$16,776.00. The Services and Supplies budget increases by approximately \$21,975.50. The overall budget impact net increase of \$38,751.50 which is about 5.4% over FY 2023-24.

Fund 100 – Summary

The proposed Administration budget will see about a 5.4% increase in expenditures for FY 2024-25. The overall increase in Fund 100 is approximately \$38,751.50. The Personnel cost increase is associated with recommended COLA increases for the Administrative Clerk of 4% (SLOCEA contract), ASM of 3% and General Manager of 2%. The Services and Supplies budget increase primarily driven by adding the estimated cost of the election of \$17,000.

The following table summarizes the budget for Fund 100. More detailed information is available in the attached Preliminary Budget worksheets.

100 - ADMINISTRATION			
Fund 100 Budget Category	2023-2024 Budget	2024-2025 Budget	Increase/ (Decrease)
Revenue	\$715,136.00	\$753,887.50	\$38,751.50
Expenditures			
Personnel	\$413,303.50	\$430,079.50	\$16,776.00
Services & Supplies	\$301,832.50	\$323,808.00	\$21,975.50
TOTAL Expenditures	\$715,136.00	\$753,887.50	\$38,751.50
TOTAL Revenue	\$715,136.00	\$753,887.50	\$38,751.50

Fund 200 – Bayridge Estates

Major Requests: No major request.

Impact to Budget: Increase in recommended cost allocation of \$96.88.

Fund 200 – Summary

Basically, there are no changes in the Fund 200 budget except the minor increase in the cost allocation amount charged to the fund.

The following table summarizes the budget for Fund 200. More detailed information is available in the attached Preliminary Budget worksheets.

200 - Bayridge			
Fund 200 Budget Category	2023-2024 Budget	2024-2025 Budget	Increase/ (Decrease)
Revenue	\$10,000.00	\$10,000.00	\$0.00
Expenditures			
Services & Supplies	\$7,399.16	\$7,399.16	\$0.00
Transfers	\$1,787.84	\$1,884.72	\$96.88
TOTAL Expenditures	\$9,187.00	\$9,283.88	\$96.88
TOTAL Revenue	\$10,000.00	\$10,000.00	\$0.00
Net Revenue/Expenses		\$716.12	

Fund 301 – Fire

Major Requests: Increase in Services and Supplies related to expenditures for Personal Protection Equipment, insurance increases, legal services with various small incremental increases and decreases in other areas.

The cost for Schedule A charges by Cal Fire have not been updated for the preliminary budget. Staff and Cal Fire are still working on updating the cost for service based on the recent labor negotiations and approval of decrease in the employee work week from 72 hours to 66 hours. Staff and Cal Fire are also looking at options to shift some costs from the contract to a line-item expenditure in the Fund 301 budget. This would eliminate overhead charges and provide some cost savings. It is anticipated that the contract amount will increase; this number will be finalized before the final budget is presented to the Board in June.

Capital Outlay for this budget decreases slightly since there is not a major vehicle replacement during the fiscal year, just the cost of outfitting of the command vehicle purchased FY 2022-23. The infrastructure

CIP line item remains the same as last fiscal year. This a place holder for future capital improvements to the fire station.

There is a significant change to the Vehicle Replacement Reserve contribution. This is the result of staff, working with Cal Fire personnel, updating the Vehicle Sinking Fund calculations to better reflect the actual costs to purchase vehicles and accounting for slightly higher inflation rates in the future.

Impact to Budget: The increase in the Services and Supplies costs is about \$24,000 due mainly to the purchase of Personal Protection Equipment, insurance and legal services.

Fund 301 – Summary

Fund 301 receives revenues through multiple sources with the primary sources being Zone B and the Special Fire Tax property taxes. Additionally, the Fund has historically received a percentage contribution from the Zone A property tax assessment. For FY 2023-24 the contribution was 41.7% of Zone A revenue or \$125,105.00. The County has provided the District with the estimated property tax revenue for Zone B which is \$2,799,961 about a 6.5% increase over last year’s budget, staff has estimated the remainder of the revenue based on past projection methodologies and has left the Zone A contribution the same until a decision is made on the allocation.

On expenditures, the Cal Fire Schedule A contract amount (labor charges) has not been finalized but is anticipated to increase. As previously discussed, increases in insurance costs and the need to purchase additional equipment is driving the increases in Services and Supplies.

The Infrastructure CIP budget remains the same as last fiscal year. This a place holder for future capital improvements to the fire station. As previously stated, the vehicle purchase budget is \$40,000 to cover the cost of outfitting the command vehicle. As previously indicated, contributions to Vehicle Replacement Reserve will increase significantly from \$103,318 in 2023-24 to \$130,000. Once the revenues and expenditures projections are solidified, staff will reevaluate the Fund 301 reserves for future recommendations for contributions.

The following table summarizes the revenue and expenditures for the Fund 301 budget. More detailed information is available in the attached Preliminary Budget worksheets.

301 - Fire			
Fund 301 Budget Category	2023-2024 Budget	2024-2025 Budget	Increase/ (Decrease)
Revenue	\$3,584,505.00	\$3,734,050.00	\$149,545.00
Expenditures			
Total Personnel	\$299,165.00	\$304,625.00	\$5,460.00
Services & Supplies	\$2,786,550.00	\$2,810,588.00	\$24,038.00
Capital Outlay	\$102,567.00	\$100,000.00	-\$2,567.00
Reserves	\$193,318.00	\$220,000.00	\$26,682.00
Transfers	\$75,089.28	\$79,158.19	\$4,068.91
Total Expenditure	\$3,456,689.28	\$3,514,371.19	\$57,681.91
Total Revenue	\$3,584,505.00	\$3,734,050.00	\$149,545.00
Net Revenue/Expenses		\$219,678.81	

Fund 400 – Vista de Oro

Major Requests: No major requests.

Impact to Budget: Increase in cost allocation of \$96.88.

Fund 400 – Mid-Year Budget Adjustment Summary

Basically, there are no changes in the Fund 400 budget except the increase in the cost allocation amount charged to the fund.

The following table summarizes the revenue and expenditures for the Fund 400 budget. More detailed information is available in the attached Preliminary Budget worksheets.

400 - VISTA DE ORO			
Fund 400 Budget Category	2023-2024 Budget	2024-2025 Budget	Increase/ (Decrease)
Revenue	\$6,000.00	\$6,000.00	\$0.00
Expenditures			
Services & Supplies	\$3,360.00	\$3,360.00	\$0.00
Transfers	\$1,787.84	\$1,884.72	\$96.88
TOTAL Expenditures	\$5,147.84	\$5,244.72	\$96.88
TOTAL Revenue	\$6,000.00	\$6,000.00	\$0.00
Net Revenue/Expenses	\$852.16	\$755.28	

Fund 500 – Water

Major Adjustment Requests:

- Adjustments to Personnel costs due to minor increase in Wages and Salaries and medical insurance, and significant increase in retirement costs and Worker’s Compensation.
- Adjustments and increases in Services and Supplies attributed to a water billing software upgrade, insurance premiums, update to the Water Master Plan and implementation of the California Zero Emissions Vehicle requirements.
- Continued implementation of the Capital Project Plan.

Impact to Budget (over the 2024-25 budget):

- Net increase in Personnel of \$58,810.00.
- Net increase in the Services and Supplies budget of \$98,682.00.
- Projected net decrease in Capital Outlay budget of \$59,000.00.

**Fund 500 – Summary
Revenue Projections**

On the revenue side of the budget, a projected increase by \$71,618.00 over last fiscal year, due to the implementation of the third and final rate increase approved by the Board in fiscal year 2022-23. The total revenues also include \$50,000 of Zone A dollars which was the approved amount from the Water Rate Study.

The County has indicated that they will connect Los Osos Middle School to the recycled water system in July which will change the water sales revenue projections, since the District has an approved rate for recycled water of 10% less than the potable rate. The revenue projection will be adjusted at the time the recycled water connection is completed. A revised revenue projection will be presented at mid-year if needed. Grant income has not been incorporated into the revenue projections because of the uncertainty of the cash flow from the Department of Water Resources as it relates to expenditures during the fiscal year.

Expenditures

As indicated in the major adjustment requests, Personnel and Services and Supplies costs have increased. While actual Salaries and Wages increased by only 2%, Payroll Taxes and Benefits have increased by about 17% mainly due to increases in medical insurance, CalPERS retirement contributions for legacy and PEPRA employees and Worker’s Compensation Insurance costs. Object level categories that required significant increases are:

- Payroll Taxes & Benefits (increase \$45,257.50)
- Insurance, Licenses & Regulatory Fees (increase \$45,607.00)
- Legal & Professional (increase \$39,000.00)

Staff was able to decrease several line-items to reflect either actual for service or anticipated costs reductions for the fiscal year to offset some of the increases referenced above (see attached budget detail).

The following table summarizes the larger budget increases in the **General Ledger line-items**:

Payroll Taxes & Benefits		
5060-Cafeteria Plan	\$4,500.00 increase	Medical Insurance
5070-Retirement Regular	\$18,000.00 increase	Legacy
5120-Workers Compensation	\$18,555.00 increase	
5124-Retirement Tier 2	\$7,188.72 increase	PEPRA
Insurance, Licenses & Regulatory Fees		
6120-Computer Licenses	\$31,872.00 increase	Water billing software upgrade
7325-Insurance	\$13,735.00 increase	
Legal & Professional		
7320-Professional & Consulting	\$39,000 increase	Water Master Plan Update
Capital Outlay		
9059-Vehicle, Equipment, etc.	\$111,000.00 increase	ZEV Fleet Vehicle/Charger

Capital Outlay Summary of Changes

The following projects are recommended to be included in the 2024-25 Capital Improvement Plan:

	FY 24/25 Projects	Budgeted (Estimated)	FY 23/24 Expenditures	Carryover Balance
500/9006	Program "C" Well Construction	\$970,000.00	\$970,000.00	\$408,000.00
500/9006	Heavy Equipment Storage Structure	\$100,000.00		\$100,000.00
500/9006	Valve Replacement Program	\$540,000.00		
500/9006	Water Yard Office-Phase 1	\$50,000.00		
500/9006	10th Street Tank Interior Coating	\$150,000.00		
500/9006	SCADA	\$750,000.00		
	TOTAL	\$2,560,000.00		\$508,000.00

The recommended Capital Improvement Plan for 2024-25 is fairly aggressive both in number of projects and budget. The following is a brief description of each project:

- **Program C Well/Equipping Phase.** This is the final phase of the project and upon completion will add a much needed well to the District water infrastructure.
- **Heavy Equipment Storage Building.** The building will house the District's larger pieces of equipment which currently are exposed to weather elements. It will be constructed on the Ferrell Ave/7th Street property.
- **Valve Replacement Program.** There are currently 66 waterline valves in need of replacement. This project will replace 55 of the valves with the remaining 11 being repaired by District staff. The valves are critical components of the water distribution system when repairs and/or leaks are required.
- **Water Yard Office-Phase 1.** The water yard office was built back in the 1940's-50's and needs to either be remodeled or replaced. Phase 1 of the project would be an analysis of the most effective way to improve or replace the facility.
- **10th Street Water Tank Interior Coating Project.** The exterior of the tank was repainted in 2020. The dive report for the condition assessment indicated that the interior was in fair condition but would need to be recoated within the next few years which staff believes needs to be done during the fiscal year.
- **SCADA.** SCADA is an acronym for the communication system between the wells, tanks and alarms. The current system is very antiquated and in dire need of replacement. This was originally going to be a two-year project but it is recommended to try to condense into one year based on the reliability issues currently being experienced.

The following table summarizes the changes in the Fund 500 budget. More detailed line-item descriptions of the various budget adjustments are provided as an attachment to the report. The following table summarizes the proposed budget for Fiscal Year 2024-25.

500 - Water			
Fund 500 Budget Category	2023-2024 Budget	2024-2025 Budget	Increase/ (Decrease)
Revenue	\$3,309,526.10	\$3,381,144.10	\$71,618.00
Expenditures			
Total Personnel	\$972,160.00	\$1,030,970.00	\$58,810.00
Services & Supplies	\$672,365.00	\$771,047.00	\$98,682.00
Capital Outlay	\$2,730,000.00	\$2,671,000.00	-\$59,000.00
Debt Service	\$264,890.53	\$263,690.04	-\$1,200.49
Reserves	\$57,000.00	\$57,000.00	\$0.00
Transfers	\$543,503.36	\$572,954.50	\$29,451.14
TOTAL Expenditures	\$5,239,918.89	\$5,366,661.54	\$126,742.65
TOTAL Revenue	\$3,309,526.10	\$3,381,144.10	\$71,618.00
Net Revenue/Expenses		-\$1,985,517.44	

Fund 500 Budget Trends

In the past, Fund 500 budget comparisons only looked back one year. Staff decided that a three-year, plus the proposed budget, comparison, looking only at water operational costs would provide valuable

information for the budgeting process. Capital projects were not included since that portion of the budget can fluctuate depending on the projects included and their costs therefore impacting the data on trends and changes in the water budget.

The following table shows the operations budget for a period beginning in fiscal year 2021-22 and including the proposed budget for fiscal year 2024-25.

	2021-22	2022-23	2023-24	2024-25	4-yr. % Change
Total Personnel	\$780,181.50	\$858,833.00	\$972,160.00	\$1,030,867.50	32%
Services/Supplies	\$630,558.00	\$615,067.00	\$672,365.00	\$771,047.00	22%
Debt Service	\$275,556.50	\$264,949.19	\$264,890.53	\$263,690.04	-4%
Reserves	\$57,000.00	\$57,000.00	\$57,000.00	\$57,000.00	0%
Transfers	\$565,249.50	\$541,847.70	\$543,503.36	\$574,397.74	2%
TOTAL	\$2,308,545.50	\$2,337,696.89	\$2,509,918.89	\$2,697,002.28	17%

Overall, there has been about 17% increase over the four-year period starting in fiscal year 2021-22. Total Personnel costs have increased 32% over the four-year period while Services and Supplies have risen 21% over that same time period. Debt service has decreased slightly due to the refinance of the IBank loan, reserves contributions have remained constant and transfers have fluctuated but have increased by 2% during the four-years.

Employee Cost-of-Living or actual wage increases over the four-year period have been about 17% of the 32% with the remaining attributed to increases in Worker’s Compensation Insurance, increases in medical insurance, the District’s contribution to retirement costs and other associated employee costs.

The increases in Services and Supplies have been mainly driven by the inflation of supplies being purchased, especially the last two years. One-time costs for repairs and maintenance of the water system and increasing regulatory fees have also added to the overall increase.

Fund 600 – Wastewater

Major Requests: No major requests.

Impact to Budget: Minor Increase in Administration Costs to NBS and other expenses of \$659.95 and increase in cost allocation of \$193.76.

Fund 600 – Summary

Basically, there are only minor changes in the Fund 600 budget with an increase in Administration Costs paid to NBS and the minor increase in the cost allocation amount charged to the fund.

The following table summarizes the budget for Fund 600. More detailed information is available in the attached Preliminary Budget worksheets.

600 - Wastewater			
Fund 600	2023-2024	2024-2025	Increase/
Budget Category	Budget	Budget	(Decrease)
Revenue	\$21,082.85	\$22,241.56	\$1,158.71
Expenditures			
Services & Supplies	\$17,812.17	\$18,472.12	\$659.95
Debt Service	\$0.00	\$0.00	\$0.00
Transfers	\$3,575.68	\$3,769.44	\$193.76
TOTAL Expenditures	\$21,387.85	\$22,241.56	\$853.71
TOTAL Revenue	\$21,082.85	\$22,241.56	\$1,158.71
Net Revenue/Expenses		-\$305.00	

Fund 650 – Solid Waste

Major Requests: A solid waste base-year rate application will be submitted by Waste Connections sometime towards the end of the current fiscal year and the upcoming year. The District will need to solicit the services of a consultant to help analyze the application. The cost could range between \$25,000 to \$30,000. The same amount was included in the Legal and Professional line-item for the current fiscal year so there is no change in the budget request.

Staff is recommending that the District re-establish a Solid Waste Reserve consistent with the current reserve amount in the 2012 District Reserve Policy. The Solid Waste Reserve Policy states the following:

- *General Contingency Reserves not to exceed \$300,000 is established to cover expenditures estimated to equal no more than six months of operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted at all times. Annual appropriation for this reserve will be no more than \$ 50,000 annually until the maximum cumulative reserve goal of \$300,000 is reached at which time funding will be equal to the change in the CPI index as per section 3 applied to the balance of this reserve as of the last audited fiscal year.*

The recommendation in the budget document is to add \$100,000 to the solid waste reserves. Staff will be bringing an update on all the reserve policies to the Board at a future meeting.

Other budgetary items such as Office/Operations are general estimations that can be adjusted up or down during the mid-year budget adjustment process once staff has a better understanding of the budget expenditures.

Impact to Budget: The proposed overall budget for Fund 650 includes \$35,000 in Legal & Professional Services for consultant services related to the solid waste base-year application. Additionally, \$100,000 contribution to the General Contingency Reserve has been budgeted.

Fund 650 – Summary

The anticipated revenue from the franchise fee has been increased to \$350,000.00 which is a \$25,000.00 increase from the previous fiscal year. The revenue from investments has also been added at \$5,000 bringing an increase of revenue from the previous fiscal year to \$30,000.

The addition of the \$100,000 to the solid waste reserves is reflected in the summary table below.

The following table summarizes the budget for Fund 650. More detailed information is available in the attached Preliminary Budget worksheets.

650 - Solid Waste			
Fund 800	2023-2024	2024-2025	Increase/
Budget Category	Budget	Budget	(Decrease)
Revenue	\$350,000.00	\$380,000.00	\$30,000.00
Expenditures			
Total Personnel	\$0.00	\$0.00	\$0.00
Services & Supplies	\$48,000.00	\$48,000.00	\$0.00
Capital Outlay	\$0.00	\$0.00	\$0.00
Debt Services	\$120,000.00	\$120,000.00	\$0.00
Reserves	\$0.00	\$100,000.00	\$100,000.00
Transfers	\$71,513.60	\$75,388.75	\$3,875.15
TOTAL Expenditures	\$239,513.60	\$343,388.75	\$103,875.15
TOTAL Revenue	\$350,000.00	\$380,000.00	\$30,000.00
Net Revenue/Expenses	\$141,486.40	\$36,611.25	

Fund 800 – Drainage

Major Adjustment Requests: Minor increases in Insurance, Licenses & Regulatory Fees and Legal & Professional.

Impact to Budget:

- Increase in the Insurance, Licenses & Regulatory Fees budget of \$150.00
- Increase in the Legal & Professional budget of \$2,000.00

Fund 800 – Budget Summary

Last fiscal year’s Fund 800 budget reflected the costs associated with the Cabrillo stormwater basin disaster. Though there will be ongoing cost to permanently repair the basin, the overall budget will decrease from fiscal year 2023-24. Staff is continuing to work with FEMA to hopefully recoup some of the costs associated with 2023 Cabrillo basin disaster.

Revenue numbers presented are preliminary since the Board will need to decide on the distribution of Zone A funds at the May Board meeting.

The following table summarizes the requested changes to the Fund 800 budget. More detail is provided in the attached item detail document.

800 - Drainage			
Fund 800	2023-2024	2024-2025	Increase/
Budget Category	Budget	Budget	(Decrease)
Revenue	\$247,331.39	\$250,582.39	\$3,251.00
Expenditures			
Total Personnel	\$12,200.00	\$9,200.00	-\$3,000.00
Services & Supplies	\$43,600.00	\$37,050.00	-\$6,550.00
Capital Outlay	\$70,000.00	\$70,000.00	\$0.00
Reserves	\$0.00	\$0.00	\$0.00
Transfers	\$14,302.72	\$15,141.73	\$839.01
Debt Service	\$63,890.50	\$63,890.50	\$0.00
TOTAL Expenditures	\$203,993.22	\$195,282.23	-\$8,710.99
TOTAL Revenue	\$247,331.39	\$250,582.39	\$3,251.00
Net Revenue/Expenses	\$104,988.17	\$55,300.16	

Fund 900 – Parks and Recreation

Major Requests: No major requests.

Impact to Budget: Increase in the cost allocation by \$193.76.

Fund 900 – Summary

The FY 2023-24 Fund 900 budget presented is contingent upon the level of Zone A funding that is allocated.

The following table summarizes the requested changes to the Fund 900 budget.

900 - Parks & Recreation			
Fund 900	2023-2024	2024-2025	Increase/
Budget Category	Budget	Budget	(Decrease)
Revenue	\$25,000.00	\$25,000.00	\$0.00
Expenditures			
Services & Supplies	\$1,600.00	\$1,600.00	\$0.00
Capital Outlay	\$0.00	\$0.00	\$0.00
Transfers	\$3,575.68	\$3,769.44	\$193.76
TOTAL Expenditures	\$5,175.68	\$5,369.44	\$193.76
TOTAL Revenue	\$25,000.00	\$25,000.00	\$0.00
Net Revenue/Expenses	-\$31,475.68	\$19,630.56	

Attachments

Fund Line Items Details and Reserve information
Fund 301 Vehicle Replacement Sinking Fund