



**FALLBROOK PUBLIC UTILITY DISTRICT  
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE**

**AGENDA**

**PURSUANT TO WAIVERS TO CERTAIN BROWN ACT PROVISIONS UNDER EXECUTIVE ORDERS ISSUED BY GOVERNOR NEWSOM RELATED TO THE COVID-19 STATE OF EMERGENCY THIS MEETING WILL BE CONDUCTED VIA WEB AND TELECONFERENCE USING THE BELOW INFORMATION, AND THERE WILL BE NO PHYSICAL LOCATION FROM WHICH MEMBERS OF THE PUBLIC MAY PARTICIPATE. INSTEAD MEMBERS OF THE PUBLIC ARE ENCOURAGED TO PARTICIPATE IN THE COMMITTEE MEETING VIA WEB CONFERENCE USING THE BELOW CALL-IN AND WEBLINK INFORMATION.**

**Join Zoom Meeting**

<https://us06web.zoom.us/j/89611563008?pwd=SWU0Nzd5amxuNVR3TVNSc3dGRjE1dz09>

**MEETING ID 896 1156 3008**

**AUDIO PASSCODE 009359**

**Dial by your location**

**+1 346 248 7799 US (Houston); +1 720 707 2699 US (Denver); +1 253 215 8782 US (Tacoma);  
+1 312 626 6799 US (Chicago); +1 646 558 8656 US (New York); +1 301 715 8592 US (Washington DC)**

**Find your local number: <https://us06web.zoom.us/j/89611563008?pwd=SWU0Nzd5amxuNVR3TVNSc3dGRjE1dz09>**

**PUBLIC COMMENTS: Members of the public may submit public comments and comments on agenda items in one of the following ways:**

**SUBMIT COMMENTS BEFORE THE MEETING:**

- By emailing to our Board Secretary at [leckert@fpud.com](mailto:leckert@fpud.com)
- By mailing to the District Offices at 990 E. Mission Rd., Fallbrook, CA 92028
- By depositing them in the District's Payment Drop Box located at 990 E. Mission Rd., Fallbrook, CA 92028

All comments submitted before the meeting by whatever means must be received at least 1 hour in advance of the meeting. All comments will be read to the Board during the appropriate portion of the meeting. Please keep any written comments to 3 minutes.

**MAKE COMMENTS DURING THE MEETING:** The Committee Chair will inquire prior to Committee discussion if there are any comments from the public on each item.

- Via Zoom Webinar go to the "Participants List," hover over your name and click on "raise hand." This will notify the moderator that you wish to speak during oral communication or during a specific item on the agenda.
- Via phone, you can raise your hand by pressing \*9 to notify the moderator that you wish to speak during the current item.

**THESE PUBLIC COMMENT PROCEDURES SUPERSEDE THE DISTRICT'S STANDARD PUBLIC COMMENT POLICIES AND PROCEDURES TO THE CONTRARY.**

**TUESDAY, MAY 18, 2021  
2:30 P.M.**

**FALLBROOK PUBLIC UTILITY DISTRICT  
990 E. MISSION RD., FALLBROOK, CA 92028  
PHONE: (760) 728-1125**

*If you have a disability and need an accommodation to participate in the meeting, please call the Secretary at (760) 999-2704 for assistance.*

**I. PRELIMINARY FUNCTIONS**

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

**II. ACTION / DISCUSSION -----(ITEM A)**

A. REVIEW PRELIMINARY DRAFT FISCAL YEAR 2021-22 OPERATING AND CAPITAL BUDGET

**III. ADJOURNMENT OF MEETING**

\* \* \* \* \*

**DECLARATION OF POSTING**

I, Lauren Eckert, Executive Assistant/Board Secretary of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2.

I, Lauren Eckert, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

May 13, 2021  
Dated / Fallbrook, CA

/s/ Lauren Eckert  
Executive Assistant/Board Secretary

**M E M O**

**TO:** Fiscal Policy & Insurance Committee  
**FROM:** Jack Bebee, General Manager  
David Shank, Assistant General Manager/CFO  
**DATE:** May 18, 2021  
**SUBJECT:** Review Preliminary Draft Fiscal Year 2021-22 Operating and Capital Budget

---

**Purpose**

As laid out in the District's budget development process, the initial steps in developing an annual budget include staff and management developing and reviewing the preliminary operating and capital budgets. This is followed by the Committee's review and consideration. The review is intended to provide detailed cost data and solicit the Committee's feedback and comments. This year the discussion has focused on the budgetary changes driven by the operations and maintenance costs of the new Santa Margarita Groundwater Treatment Plant (SMGTP), which is scheduled to be completed and operational by the end of this year. At the April 29<sup>th</sup> Fiscal Policy and Insurance Committee (the Committee) meeting, the Committee received the initial Operating and Capital Budgets along with various supporting documents for review.

**Summary**

Staff have developed a Preliminary Draft Fiscal Year 2021-22 Operating and Capital Budget for the Committee to review. While this is substantially complete, the San Diego County Water Authority (SDCWA) has not yet issued its Calendar Year 2022 Rates and Charges. This year SDCWA's information, like last year, is late making it difficult to develop the budget since many numbers are impacted by the cost of water and are therefore subject to change. In this draft, text subject to change once SDCWA provides its rates and charges are highlighted in yellow where possible. Any table presenting District or Water Services costs and net revenues are also subject to change. The District's projected SDCWA rates are what is included in this draft so changes are likely going to be minimal. These will all be updated for the next draft once SDCWA provides the information.

**Next steps:**

Any comments or changes requested by the Committee will be incorporated into the Draft Recommended Budget and presented to the Committee for review in the next meeting. Staff anticipate having a Final Draft Fiscal Year 2021-22 Budget for the Committee to review in early June.

Attachment A – Preliminary Draft Fiscal Year 2021-22 Operating and Capital Budget

**Recommended Action**

This item is for discussion only. No action is required.

# **Attachment A**



990 East Mission Road  
Fallbrook, California  
92028-2232  
[www.fpub.com](http://www.fpub.com)  
(760) 728-1125

#### Board of Directors

Dave Baxter  
*Division 1*

Ken Endter  
*Division 2*

Jennifer DeMeo  
*Division 3*

Don McDougal  
*Division 4*

Charley Wolk  
*Division 5*

#### Staff

Jack Bebee  
*General Manager*

David Shank  
*Assistant General Manager/  
Chief Financial Officer*

Lauren Eckert  
*Executive Assistant/  
Board Secretary*

#### General Counsel

Paula de Sousa  
*Best Best & Krieger*

June XX, 2021

Board of Directors  
Fallbrook Public Utility District  
990 East Mission Road  
Fallbrook, California 92028

### **Budget Message**

Enclosed is the Fiscal Year 2021-22 Recommended Operating and Capital Budget (Budget) for the Fallbrook Public Utility District (District). The District is focused on executing the Board of Directors' goals and objectives through the continued implementation of the District Strategic Plan, which is included at the beginning of the Budget document. These objectives help the District meet its overall objective, which is to benefit the community of Fallbrook by leveraging sound business practices to provide efficient and reliable services. The Budget presented here supports these goals and objectives.

### **Overcoming Challenges**

This year was fraught with unprecedented challenges to the District and the World. The District's ability to adapt business practices to effectively manage the changes in operations required by the pandemic speak directly to management's recent efforts to both enhance and update the District's operations. The new phone system allowed Customer Service to receive calls like normal with staff working remotely. Access to the billing and water use information allowed them to answer customer questions. The payment options like PayNearMe and credit cards recently implemented provide customers more payment options. This ensured cash and other payments could be made even with the offices closed. Dedicated operators ensured uninterrupted service.

### **Water Affordability**

The District has been faced in the past with escalating wholesale water costs driven by major infrastructure investments by the San Diego County Water Authority (SDCWA) in supply reliability. The SDCWA water purchase costs represent approximately 50% of the District's water enterprise operating costs. With SDCWA facing operational challenges from declining water demands and the additional costs from the potential construction of a more than \$4 billion dollar pipeline to the All-American Canal, the District is facing significant water cost increases from SDCWA. To address this, the District has initiated a process to change its water wholesaler to Eastern Municipal Water District (EMWD). This change would reduce the District's cost of water by approximately 30% and not impact water reliability. The significant cost savings that would result from this change would help make the District's water more affordable for the community and help revitalize the region's agricultural industry.



990 East Mission Road  
Fallbrook, California  
92028-2232  
[www.fpud.com](http://www.fpud.com)  
(760) 728-1125

Board of Directors

Dave Baxter  
*Division 1*

Ken Endter  
*Division 2*

Jennifer DeMeo  
*Division 3*

Don McDougal  
*Division 4*

Charley Wolk  
*Division 5*

Staff

Jack Bebee  
*General Manager*

David Shank  
*Assistant General Manager/  
Chief Financial Officer*

Lauren Eckert  
*Executive Assistant/  
Board Secretary*

General Counsel

Paula de Sousa  
*Best Best & Krieger*

In addition to the regional investments in San Diego County water supplies, there is a significant proposed statewide water project to fix the Bay-Delta State Water Project, also known as the WaterFix, which delivers our key water supplies from Northern California. While the impact of the WaterFix on the cost of water is not known, the original cost in 2017 was expected to be just over \$16 billion. Since this cost is to be recovered on water rates, the project will cause an ongoing increase to wholesale water costs. With the additional increases in water costs due to WaterFix on the horizon, local water supply development, which will reduce our dependence on costly imported water, is another way to mitigate continued wholesale water rate increases.

Having recently settled over 66 years of water rights litigation with Camp Pendleton Marine Corps Base, the Santa Margarita River Conjunctive Use Project (SMRCUP) has secured a local water supply for the District. This major achievement will provide all future District ratepayers long-term rate relief from increasing water costs at the local wholesale and State levels. The settlement has allowed the District to quickly move forward with the construction of the Santa Margarita Groundwater Treatment Plant (SMGTP). This project is currently under construction and is scheduled to begin producing water by the end of 2021. The District has secured local supply development incentives from the Metropolitan Water District that will offset some of the projects operating costs and make the supply cheaper than water purchased from SDCWA.

**Asset Management**

The District has implemented an asset management program that balances the cost of infrastructure rehabilitation with the cost of emergency repairs. Our critical buried infrastructure, such as water mains, have an average service life of 80 to 100 years. In the past, the District’s replacement cycle for buried assets was on a replacement cycle of 400 years. With this replacement cycle, the frequency of asset failures was expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. In response, the District has proactively managed the renewal and rehabilitation program and is on a path to drive the system service life down from 400 years to 100 years. The recent decreased frequency of asset failures shows that some progress on this program has been made, but this is a long-term program to meet the future replacement needs.

**Continuous Improvement**

We also understand that this pandemic has added an additional financial burden to our ratepayers, many of whom were already struggling with the increasing cost of water. This year the District was able to leverage all of the hard work done to enhance its financial management and reporting practices into rate payer savings by executing a public debt offering and refinancing a wastewater loan. The refinancing saved rate payers \$1.6 million on a present value basis. Over the past three years, the District’s Annual Budget and Comprehensive Annual Financial Report (CAFR) have received **06** awards





990 East Mission Road  
Fallbrook, California  
92028-2232  
[www.fpud.com](http://www.fpud.com)  
(760) 728-1125

Board of Directors

Dave Baxter  
*Division 1*

Ken Endter  
*Division 2*

Jennifer DeMeo  
*Division 3*

Don McDougal  
*Division 4*

Charley Wolk  
*Division 5*

Staff

Jack Bebee  
*General Manager*

David Shank  
*Assistant General Manager/  
Chief Financial Officer*

Lauren Eckert  
*Executive Assistant/  
Board Secretary*

General Counsel

Paula de Sousa  
*Best Best & Krieger*

for excellence from the Governmental Finance Officers Association (GFOA). This enhanced financial transparency enabled the District’s wastewater system to secure a credit rating from Standard and Poor’s (S&P). With a rating of A+, the District’s bonds are considered investment grade with a strong capacity to repay. The District realizes that while small, savings like this add up and help lessen the financial burden our ratepayers face.

**Looking Forward**

On May 3, 2021, the District opened its doors for in person service after being closed for over a year. While the social and economic impacts of the pandemic will continue, there is hope things will return to pre-pandemic conditions in the near future. The District is committed to supporting its rate payers by helping them access any available economic relief and get through these hard times. The District is also focused on lowering its wholesale water costs by changing the Districts wholesale provider. While this effort will be politically challenging, it has the potential to provide our customers with immediate and substantial rate relief.

During this Budget cycle, the District is taking the final step towards a higher level of water independence by commissioning the SMGTP. With the SMGTP operating, the District’s operating costs change to now include all the costs of producing and pumping treated water. This means that less money will be sent to SDCWA for water purchases providing both short and long term net rate payer savings. As we head into the new fiscal year, California is again faced by drought. The District is preparing for potential water use restrictions to ensure the highest level of water supply reliability possible for rate payers.

Jack Bebee  
General Manager

David Shank  
Assistant General Manager/CFO



## Budget in Brief

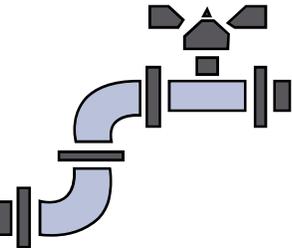
### Fiscal Year 2020-21 Accomplishments

- Maintained the SMGTP Project construction schedule with a continued goal of beginning deliveries of approximately 50% of our supply by 2022.
- Key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects have been completed.
- Continue progress on replacing meters with smart meters (Advanced Metering Infrastructure (AMI) meters) and continue outreach to customers on how these meters can help them better monitor and reduce water use and water costs.
- Digitized all customer files for electronic access streamlining account management.
- Implemented a computerized maintenance management system that is integrated with the District's GIS to enhance system operations and maintenance.
- Continue to move the District's LAFCO initiatives forward and complete the detachment negotiations with the San Diego County Water Authority (SDCWA).
- Pursued power storage grant opportunities to reduce the District's operating costs.
- The District's Comprehensive Annual Financial Report (CAFR) and an annual budget document that received the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Award and California Society of Municipal Finance Officers (CSMFO) Operating Budget Excellence Award.
- Received the District Transparency Certificate of Excellence from the Special District Leadership Foundation.
- Reduced the loan amount for the SMGTP by using funds refunded to the District by SDCWA to pay a portion of the projects costs. This saved rate payers \$275,000 over the life of the loan.

### Fiscal Year 2021-22 Goals

The Key Goals for the upcoming year include:

- Start-up and operate the District's new Santa Margarita Groundwater Treatment Plant (SMGTP) with a goal of producing approximately 50% of the District's treated water supply.
- Develop and execute an operating plan for SMGTP that optimizes operations and minimizes costs.
- Complete key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects.
- Complete project of replacing meters with smart meters (Advanced Metering Infrastructure (AMI) meters) replacement project and continue outreach to customers on how these meters can help them better monitor and reduce water use and water costs.
- Complete a review of the billing and banking systems to assess cost savings opportunities and operation enhancement that might be realized.
- Continue to move the District's LAFCO initiatives forward and complete the detachment negotiations with the San Diego County Water Authority (SDCWA).
- Produce a Comprehensive Annual Financial Report (CAFR) and an annual budget document that meet the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Awards.



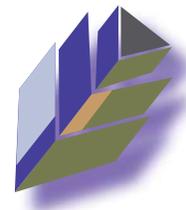
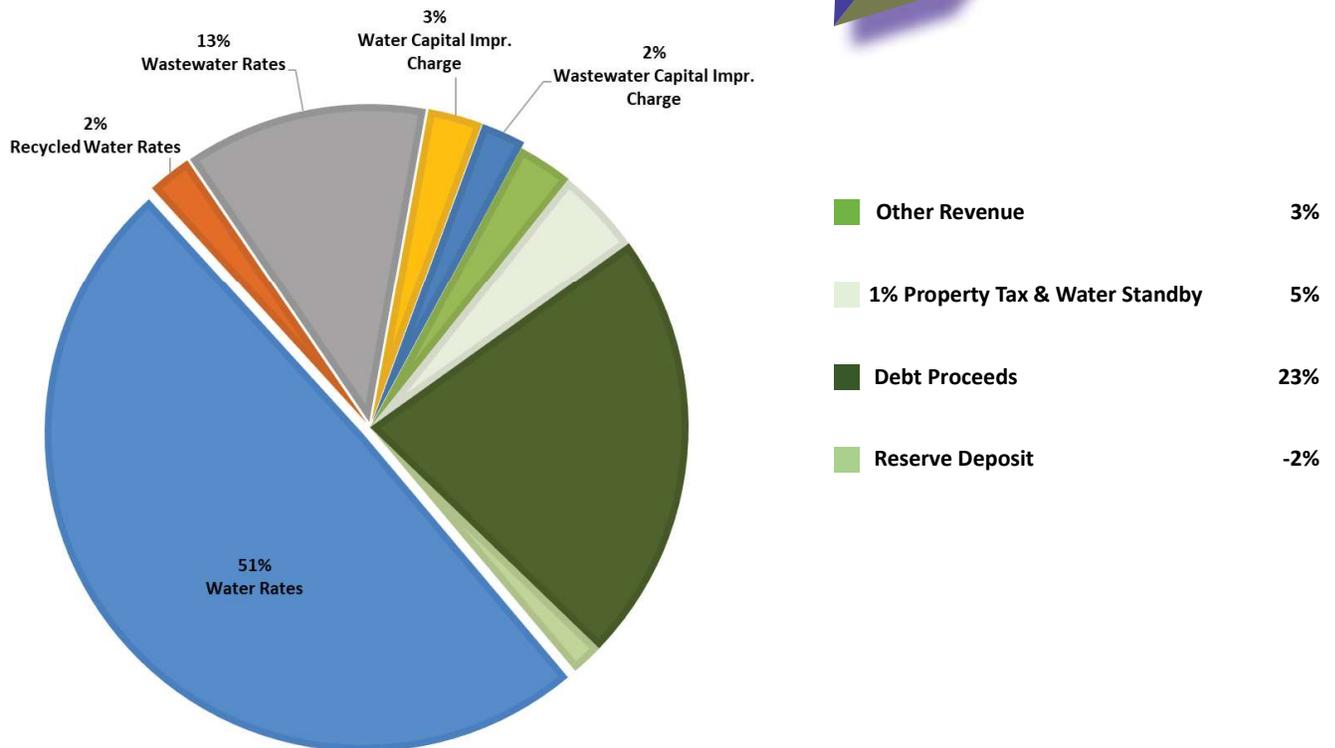
**Continue projects to replace key pipelines and valves to reduce water outages and blowouts.**

Sources of Funds

The water, recycled water and wastewater systems combined operating and non-operating revenues and net fund withdrawals are budgeted to be sufficient to fund the budgeted uses of funds. Fiscal Year 2020-21 was the first year water sales increased year-over-year due to dry conditions. With current sales tracking the District’s projected long-term average water sales levels, the water sales level this budget cycle is held constant. The water, recycled water and wastewater rate increases for the Budget are up to 8%, 8%, and 4.5%, respectively, for Calendar Year 2022 and were approved during the Proposition 218 process in 2017. While these increases are in-line with the financial plan adopted by the Board in 2018, the Board will take action to adopt Calendar Year 2022 rates and charges in December of 2021. When the Board takes action on rates and charges, it will take into account the economic impact the pandemic has had on the service area and strive to mitigate rate increases. **Appendix B shows a regional comparison of the districts average water bill to other local agencies.**

Chart 1 shows a breakdown of the District’s \$50.7 million budgeted sources of funds. Rate and charge revenues makes up 71% of the District’s total budgeted sources of funds. In addition, the District is going to be drawing down its State Revolving Funds (SRF) loan and using the proceeds to pay for the SMGTP. Net fund deposits from reserves are budgeted this year. The District plans to fund renewal and replacement Capital Improvement Program (CIP) projects that are funded with cash on a Pay-As-You-Go (PAYGO) basis.

Chart #1 - Sources of Revenue Fiscal Year 2021-22  
Total Revenue \$50,699,679



Use of Funds

Now that the District’s local supply of water will be available for delivery to customers, the costs related to the operations of the SMGTP are increasing the District Operating Costs. While treatment and pumping are increasing Operating Costs, Water Purchases costs from the San Diego County Water Authority (SDCWA) are decreasing. The result is a reduced water bill from SDCWA offsetting the Operating Cost increases as we are now producing our own local water. There are 2.2 additional Full-Time Equivalent (FTE) positions included in the preliminary Fiscal Year 2021-22 Budget. This brings the FTE count up from 66.8 FTEs to 69 FTEs. Staff evaluated the most cost-effective approach to operating the SMGTP that also optimized existing staffing resources. The recommendation from the Engineering and Operations Committee was to shift some operator responsibilities’ to utility worker positions and re-structuring the District’s maintenance approach. This optimizes existing System Operator positions capabilities and only requires adding one. Two Utility Worker positions assume the select operator tasks. The lower cost Utility Worker positions, allowed for deletion of a higher cost Utility Technician position. This optimized both staffing and minimized the cost to operate the SMGTP. The budget for the SMGTP is contained in the new Water Services Treatment Division. Overall the Operating Cost increase is driven by the SMGTP.

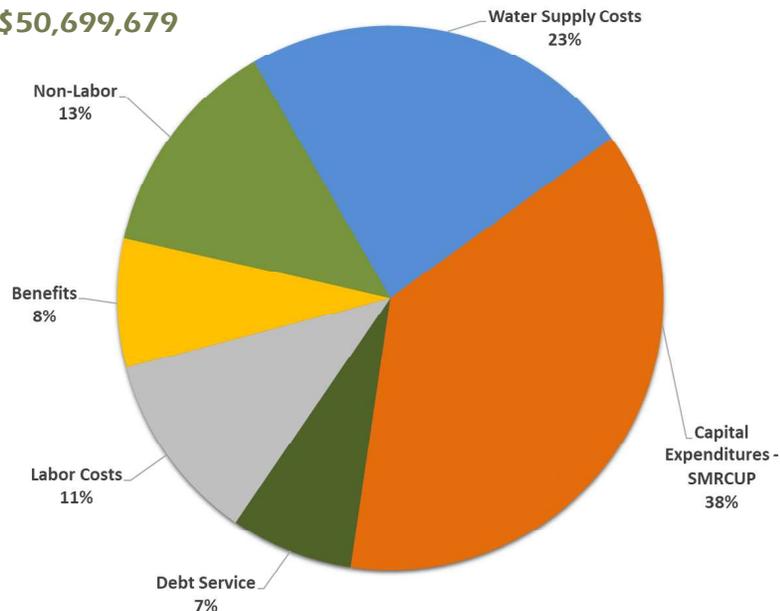
Chart 2 shows the breakdown of the District’s total use of funds. Labor related uses of fund represent 19% of the District’s budgeted uses of funds. Eighty-one percent of the District’s uses of funds are for non-labor related expenditures. Water supply costs are the District’s single largest ongoing use of funds. Sixty-one percent of the CIP expenditures are due to SMRCUP and funded with a SRF loan.

Table #1 - Operating Budget Comparison, Salaries, Non-Labor and Benefits

Description	FY 2019-20 Actual	FY 2020-21		FY 2021-22 Budget	Budget to Budget Change (%)
		Budget	Projected		
Salaries	\$ 5,459,032	\$ 5,316,951	\$ 5,174,700	\$ 5,716,546	7.5%
Non-Labor (excludes cost of water)	4,407,278	4,515,332	4,300,633	6,667,765	47.7%
<b>Total Labor and Non-Labor Expenses</b>	<b>\$ 9,866,310</b>	<b>\$ 9,832,283</b>	<b>\$ 9,475,333</b>	<b>\$ 12,384,311</b>	<b>26.0%</b>
Benefits	2,994,316	3,625,254	3,625,254	3,874,164	6.9%
<b>Total Expense</b>	<b>\$12,860,626</b>	<b>\$ 13,457,536</b>	<b>\$ 13,100,587</b>	<b>\$ 16,258,475</b>	<b>20.8%</b>

Chart #2 - Uses of Funds Fiscal Year 2021-22

Total Uses of Funds \$50,699,679



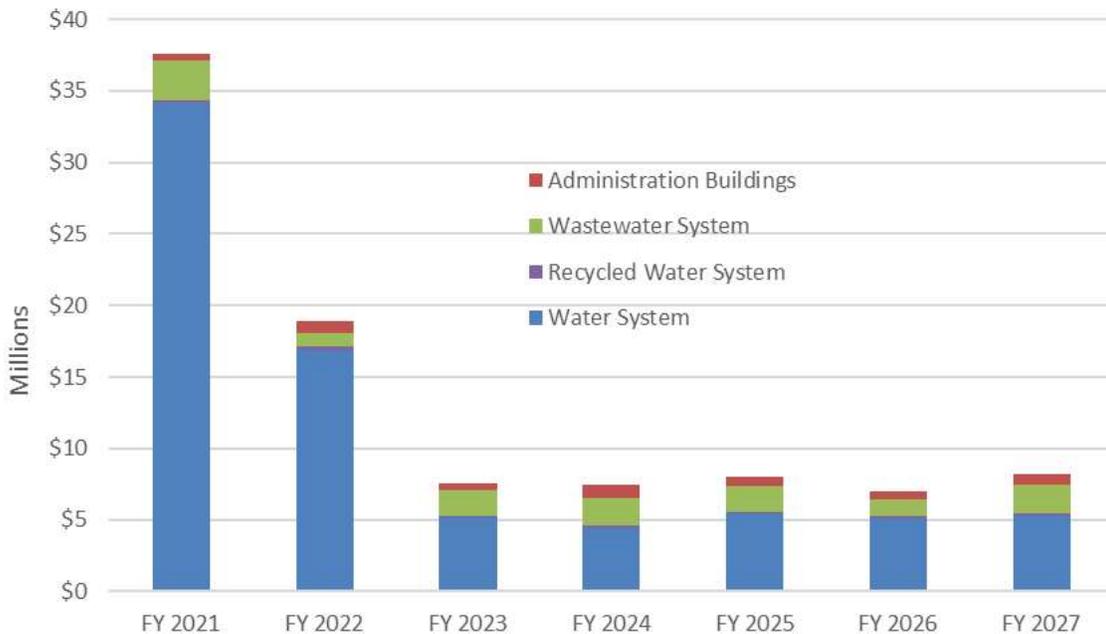
Capital Budget

The District has implemented a capital program to improve the overall reliability of the water, wastewater and recycled systems. The most significant on-going component of the capital program is the replacement of aging infrastructure. In addition to rehabilitation, the construction of the \$70.3 million SMGTP is expected to be completed in Fiscal Year 2021-22 and will be the most significant single project for the next 15-20 years. The SMGTP and will provide a long-term cost effective local water supply. The SMGTP is funded with an SRF loan. Chart 3 shows the annual CIP expenditures by project type. Other projects are shown. The Capital Budget for Fiscal Year 2021-22 is \$18.9 million, with \$11.6 million funded with a SRF Loan.

**SDCWA Rate Lawsuit Rebate**

The Board has elected to use the refunded overpayment from SDCWA to fund a portion of the SMGTP. The \$909,412.67 received reduces loan amount for SMGWTP, which reduces annual debt service by \$40,000 per year and saves water rate payers approximately \$275,000 over the life of the loan.

Chart #3 - Fallbrook Public Utility District's Annual Budgeted CIP Expenditures



Financial Summaries

This year, as shown in the updated financial projections for Fiscal Year 2021-22 in [Table #2](#), the District is projecting a deposit to reserves. Looking forward, the District has made a significant reduction in the projected water sales level due to a persistent trend of lower annual water sales. SDCWA, the District’s water wholesaler, continues to increase the region’s cost of water due to its high cost water supply mix that is comprised of water transfer deliveries from the Imperial Irrigation District (IID) and its purchase contract with Poseidon Resources. The District is pursuing detachment from SDCWA and annexation into Eastern Municipal Water District (EMWD) to save the District water users over 30% on their water costs. EMWD offers the District a reliable alternative wholesaler to SDCWA at a significantly lower cost. Chart 4 illustrates the per unit savings that the District would realize by purchasing its water from EMWD and shows EMWD maintains a lower average annual increase. As shown in the financial projections in [Table 2](#), a budgeted reserve deposit of \$0.9 million is planned. Chart 5 shows the District’s reserve balances are expected to remain relatively stable but below the target fund levels. The District is projected to maintain a debt service coverage level in excess of its required 1.2x.

Chart #4 - District’s Estimated Wholesale Water Costs

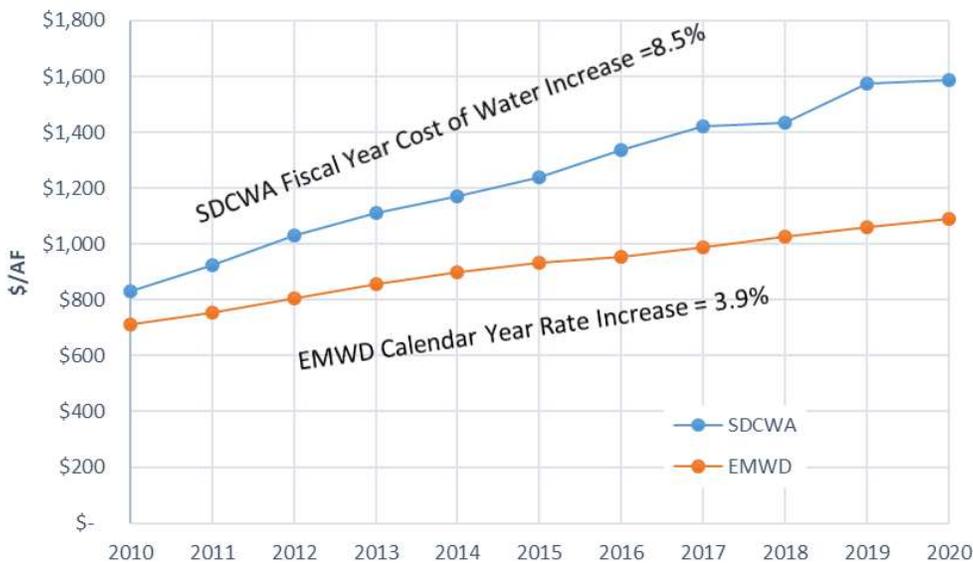


Chart #5 - District’s Fund Balances and Target Balance Level

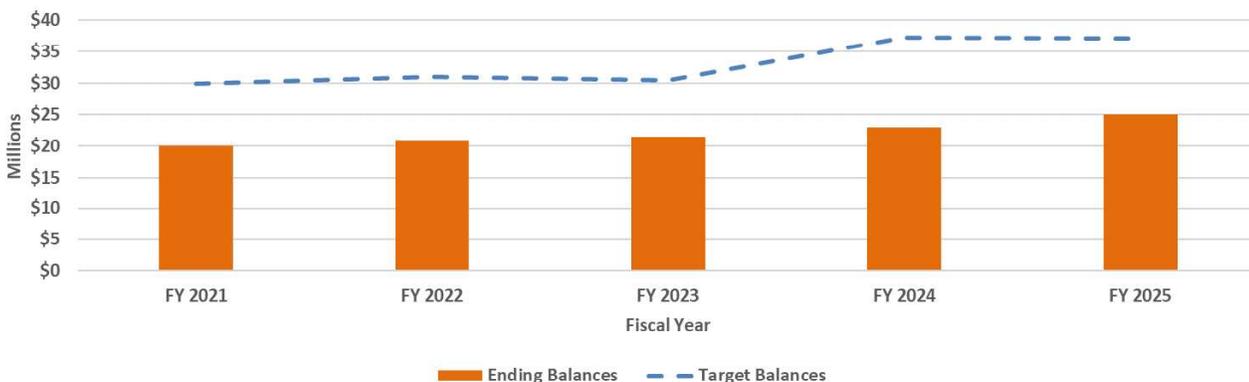


Table #2 - Fallbrook Public Utility District's Financial Summary

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 24,099,177	\$ 25,883,905	\$ 27,700,339	\$ 29,377,746	\$ 31,156,721
Recycled Water	1,168,084	1,175,173	1,254,808	1,330,097	1,409,903
Wastewater	6,168,490	6,469,183	6,760,297	7,064,510	7,382,413
<b>Subtotal Revenue from Rates</b>	<b>\$ 31,435,751</b>	<b>\$ 33,528,261</b>	<b>\$ 35,715,444</b>	<b>\$ 37,772,353</b>	<b>\$ 39,949,037</b>
<b>Other Operating Revenue Subtotal</b>	<b>\$ 809,217</b>	<b>\$ 882,825</b>	<b>\$ 955,318</b>	<b>\$ 1,032,138</b>	<b>\$ 1,098,034</b>
<b>Non-Operating Revenue</b>	<b>\$ 5,535,975</b>	<b>\$ 5,545,241</b>	<b>\$ 5,616,789</b>	<b>\$ 5,754,195</b>	<b>\$ 5,901,729</b>
<b>Total Revenues</b>	<b>\$ 37,780,943</b>	<b>\$ 39,956,328</b>	<b>\$ 42,287,551</b>	<b>\$ 44,558,686</b>	<b>\$ 46,948,800</b>
<b>Total Operating Expenses</b>					
	\$ 27,069,467	\$ 28,106,208	\$ 28,678,597	\$ 30,167,841	\$ 31,559,262
<b>Net Operating Revenues</b>	<b>\$ 10,711,476</b>	<b>\$ 11,850,120</b>	<b>\$ 13,608,954</b>	<b>\$ 14,390,845</b>	<b>\$ 15,389,538</b>
<b>Total Debt Service</b>	<b>\$ 3,137,523</b>	<b>\$ 3,685,471</b>	<b>\$ 5,419,756</b>	<b>\$ 5,419,502</b>	<b>\$ 5,422,004</b>
<b>Total Capital Expenditures</b>					
	\$ 37,595,000	\$ 18,908,000	\$ 7,590,686	\$ 7,459,018	\$ 8,038,361
<b>Total Expenditures</b>	<b>\$ 67,801,990</b>	<b>\$ 50,699,679</b>	<b>\$ 41,689,039</b>	<b>\$ 43,046,362</b>	<b>\$ 45,019,627</b>
SRF Loan Proceeds	\$ 31,500,000	\$ 11,600,000	\$ -	\$ -	\$ -
<b>Change in Net Position *</b>	<b>\$ 1,478,953</b>	<b>\$ 856,649</b>	<b>\$ 598,512</b>	<b>\$ 1,512,324</b>	<b>\$ 1,929,173</b>
<i>Beginning Balances</i>	\$ 18,560,207	\$ 20,039,160	\$ 20,895,809	\$ 21,494,321	\$ 23,006,645
<i>Ending Balances</i>	\$ 20,039,160	\$ 20,895,809	\$ 21,494,321	\$ 23,006,645	\$ 24,935,818

\*Change in net position is Total Revenues minus Total Expenditures plus SRF Loan Proceeds.

**Budget User Guidance**

The District's Fiscal Year 2021-22 Recommended Budget is organized and presented in a manner to better communicate the District's financial operations. Through enhanced transparency stakeholders will be better able to understand the District's costs and cost structure. The budget sections and a summary of the information provided in them is provided below:

**Introduction** – This section provides basic information on the District including history, governance, location and community profile and organizational structure.

**Fund Structure** – This section provides a description of the District's fund structure and financial policies.

**Financial Summaries** – This is a high level summary of the District's financial performance. Summaries for the Water, Wastewater and Recycled Services are shown in Appendix A.

**Sources of Funds** – This provides the projected revenues the District will receive and the underlying assumptions driving changes in the revenues.

**Operating Budget** – This section outlines the District's operating expenditures in addition to providing staffing and descriptions of activities and goals of each component of the District's operations. The benefit costs, debt service costs and how the cost are allocated to different services is also included in this section.

**Capital Budget** – This section outlines the District's capital expenditures and provides a description of the project. The description includes a summary of the project in addition to the project's cost and schedule.

**Appendices** – These provide historical and additional information on the District's financial operations, service area and policies.

\* Tables may not foot due to rounding.

**DISTINGUISHED BUDGET PRESENTATION AWARD**



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**Fallbrook Public Utility District  
California**

For the Fiscal Year Beginning

**July 1, 2020**

*Christopher P. Morill*

Executive Director

**OPERATING BUDGET EXCELLENCE AWARD**



**DISTRICT TRANSPARENCY CERTIFICATE OF EXCELLENCE**

OUR COMMITMENT TO TRANSPARENCY



**DISTRICT  
TRANSPARENCY  
CERTIFICATE OF  
EXCELLENCE  
RECIPIENT**

[sdlf.org](http://sdlf.org)

**2020**

**15**

## About the District

### History

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."



Water Reclamation Plant on Alturas Road, before Camp Pendleton. Photo courtesy of Tom Rodgers, (1922)

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

### Service Area / STATISTICS

- 44 square-mile service area
- Population: 32,000
- 9,300 water customers
- 5,000 sewer customers
- 30 recycled water customers
- 69 employees budgeted
- \$29 million operating revenues
- \$180 million in total assets
- 8,100 acre-feet sold annually

The District became a member of the San Diego County Water Authority (SDCWA) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (MWD). When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County. Today, the SDCWA provides virtually all of the District's potable water.

### Diversifying the District's Water Supply: The Santa Margarita River

Back when the District used to produce some of its water from the Santa Margarita River, it did so using a small pump in the river, under a direct diversion license from the state of California. In 1948, additional water permits were obtained for diversion facilities and construction of a proposed 150-foot dam that would store 30,000 acre-feet of river water. The diversion works for the small pump were destroyed in 1969 by floods and was not rebuilt. Subsequently the state canceled the small-diversion license for lack of use, but the 30,000 acre-foot storage permit remained in place while the dam was being planned.

The proposed dam, and associated water supply, immediately hit some hurdles. In 1951, soon after the District had obtained water permits from the state, the federal government filed suit against the District over water rights on the river, to quiet its title to the adjudicated rights accruing to the U.S. Marine Corps Base Camp Pendleton. The lawsuit, the U.S. v. Fallbrook case, is the oldest civil case in the county. For more than 66 years, the District has been attempting to develop a permanent local water supply on the Santa Margarita River.

In 1968, a Memorandum of Understanding and Agreement was signed with the Federal Government to develop a two-dam reservoir project on the river that would benefit both Camp Pendleton and the District. This agreement was the culmination of 17 years of litigation. The federally sponsored project was known as the Santa Margarita Project. It never came to fruition however, due to environmental issues, new faces in leadership, and lack of funding.

Then in January 2018, the District's Board of Directors signed an agreement with Camp Pendleton in a landmark settlement, resolving the U.S. v. Fallbrook case and in April 2019, the federal court adopted the settlement. As part of the settlement, river water will flow to Camp Pendleton and be stored in recharge ponds that seep into an underground aquifer there. Then some of that water will be pumped out of the ground and piped back to the District when needed. Called the Santa Margarita River Conjunctive Use Project (SMRCUP), it will provide a local supply, reducing dependence on expensive wholesale purchases from the SDCWA, and is expected to provide just over half of the District's water needs.

Fiscal Year 2021-22 marks the first year water deliveries from this landmark agreement will be delivered to the District's rate payers. To treat SMRCUP water deliveries, the District is constructing a \$70.3 million Santa Margarita Groundwater Treatment Plant (SMGTP).

### **Wastewater and Recycled Water History and Mergers**

The District's scope of operations grew in 1994 when the Fallbrook Sanitary District merged with the District. It had provided parts of Fallbrook with recycled water and wastewater service within a 4,200 acre area of downtown. The District took over those services, and the same year the playing fields at Fallbrook High School started receiving reclaimed water as its source of irrigation water. So did two new large nurseries. For the next ten years, the District's Reclamation Plant (Plant) began receiving a series of awards for safety in operations. In 2015, the District completed a major overhaul, upgrade and expansion of the Plant. The \$27 million project took three years to complete, replacing aged and aging equipment, and allowed for a substantial expansion of the District's recycled water distribution system. The overhaul involved upgrades to the existing Plant to improve reliability in operation and created much-needed storage space for recycled water.



Construction progress of the Fallbrook Groundwater Treatment Plant

## Services

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

### Water System

In the past, the District imported 99% of its potable water from the SDCWA with the remaining 1% coming from a local well. Expected to be operational in September 2021, the District's cost structure is changing now that it is operating and maintaining the SMGTP. While only a partial year of deliveries are expected this year from SMRCUP, the local supply will reduce the amount of water purchased from SDCWA. The District expects 37% of its Fiscal Year 2021-22 water sales to come from the plant's production. The remaining 63% will be purchased from SDCWA. The cost of District's treatment operations is expected to be less than the cost of water supply purchases, resulting in savings for the District rate payers starting this year.

The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District is in the middle of an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has 4 connections to the imported water system, three of the four are directed connected to MWD owned pipelines and the fourth which is currently not in use is connected to SDCWA's pipeline.

The District's five-year average annual water sales is 8,263 acre-feet. Residential and commercial customers represent 64% of sales, and agricultural customers make up the remaining 36%. The District's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is being driven by the economics of agriculture production and the fact that high wholesale water costs make only limited crops profitable. The District's agricultural water sales have reduced from 7,000 acre-feet in Fiscal Year 2008 to 2,350 in Fiscal Year 2020.

### SANTA MARGARITA GROUNDWATER TREATMENT PLANT and PUMPING STATION / STATISTICS

Fallbrook Public Utility District anticipates having this project completed in 2021 and to begin having its own cost-effective supply that same year.

- Minimum Plant Capacity-1.2 Million Gallons per Day (MGD)
- Maximum Plant Capacity-7.8 MGD



Construction progress of the Fallbrook Groundwater Treatment Plant

## Wastewater System

The District's wastewater system is comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 23-mile ocean outfall line.

## Recycled Water System

The District's recycled water system includes 10.5 miles of buried pipe. Currently the District has 30 recycled water customers, and delivers an average of 0.6 million gallons per day to them. The District provides recycled water for nurseries, sports fields, home owners' associations, Fallbrook High School, street medians, and for freeway irrigation. In 2015, the District completed a \$27 million expansion and upgrade to the water reclamation plant to improve reliability of operation and provide storage for recycled water. The project was completed ahead of schedule and under budget.

To help new users tap into the expanding recycled water system, the District secured funding from the Department of Water Resources through the Prop. 84 grant program. In 2014, the District held a workshop to assist growers with planning, getting permits, purchasing new equipment, and receiving grant funds. Assisting growers through the entire process has helped bring new recycled customers online. The project included expanding the recycled water distribution system in order to add new large water users.

The District has received grant funding to explore development of a joint Indirect Potable Reuse Project with Camp Pendleton Marine Corps Base. The pilot project is planned to be operating during the first part of FY 2021-22.

## Governance and Organizational Structure

The District's Board is made up of five community members who serve overlapping four-year terms. In March 2016, the Board unanimously approved a resolution to change the method of electing board members to "election by district" and approved a map identifying five territorial units within the District. Each director, therefore, is elected by the registered voters of the sub-district he or she resides in, within the District's service area. To run for office, a candidate must live in the area he or she is running to represent. Prior to 2016, directors would win a seat on the board by being the top vote-getters, regardless of where they lived within the District.

### Current Board of Directors:

**District #1 - Dave Baxter, Vice-President**

**District #2 - Ken Endter**

**District #3 - Jennifer DeMeo, President**

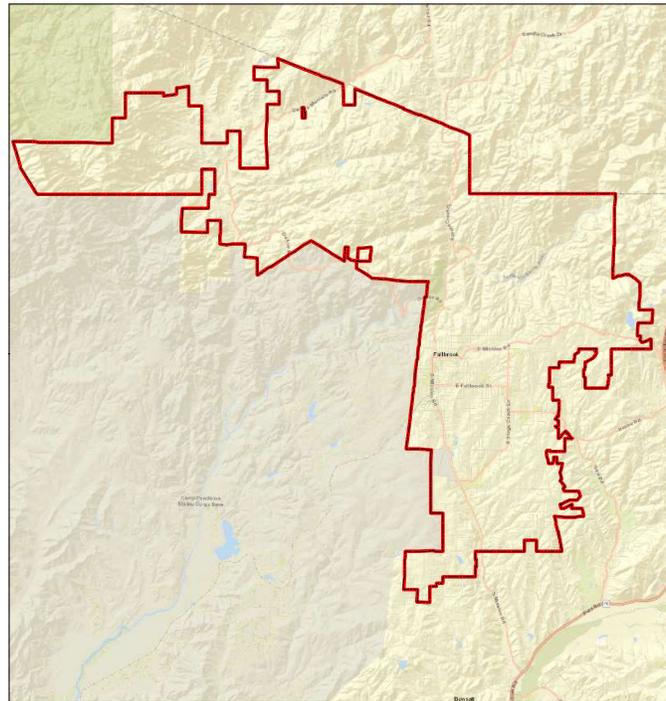
**District #4 - Don McDougal**

**District #5 - Charley Wolk**

## Service Area and Local Economy

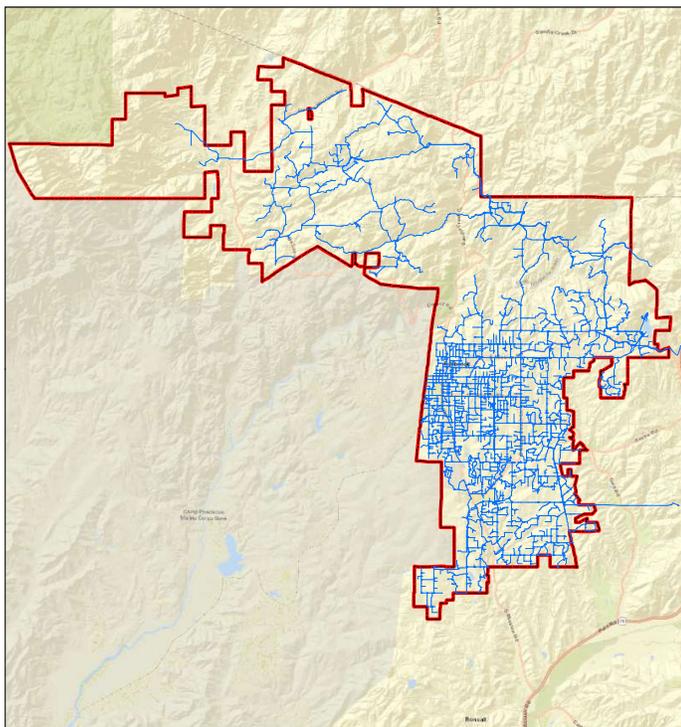
San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character. The District's service area and pipeline is shown in the accompanying maps. The District is bordered to the west by the Naval Weapons Station and U.S. Marine Corps Base Camp Pendleton, making the District's service area a bedroom community for Camp Pendleton's active military and civilian-service workers. The service area's 2019 population is estimated to be 31,701 with 11,074 households. Fallbrook's population has remained relatively unchanged over the past several years.

Figure #1 - District Service Area



DISCLAIMER: By accepting this map, you agree that the Fallbrook Public Utility District assumes no liability or responsibility of any kind arising from use of this map. This map, its data, and any calculations associated with this map is provided without warranty of any kind.	<b>LEGEND</b> FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY
	<b>FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY</b> 
Source: ESRI, FPUID Projection: California State Plane NAD 83 Feet, Zone 1, Epoch 1911.20 Map Created by Todd Jester (6-6-21), X:\GISData - Inkscape\Project Spec\ink\ESTR\F\BOUNDARY\WATER_BOUNDARY_PU2021.MXD	

Figure #2 - District Pipelines



DISCLAIMER: By accepting this map, you agree that the Fallbrook Public Utility District assumes no liability or responsibility of any kind arising from use of this map. This map, its data, and any calculations associated with this map is provided without warranty of any kind.	<b>LEGEND</b> FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY WATERLINE
	<b>FALLBROOK PUBLIC UTILITY DISTRICT WATER BOUNDARY</b> 
Source: ESRI, FPUID Projection: California State Plane NAD 83 Feet, Zone 1, Epoch 1911.20 Map Created by Todd Jester (6-6-21), X:\GISData - Inkscape\Project Spec\ink\ESTR\F\BOUNDARY\WATER_BOUNDARY_WATERLINE.MXD	

The median household income in Fallbrook was \$63,244, which is less than the state median of \$75,235 and slightly higher than the national average of \$62,843. As of March 2021, San Diego County's unemployment rate was 6.9%, which is lower than the State's 8.2%.

The San Diego Association of Governments (SANDAG) projects that the County's population will approach 4.1 million residents in 2050, up from 3.4 million in 2020. The District's 2050 housing density is expected to increase slightly as housing demands increase. Employment is also expected to slightly increase by 2050.

## District's Strategic Plan for FY 2021/2022

**Mission Statement:** To benefit the community of Fallbrook by providing efficient and reliable services.

### #1 Strategic Focus Area | Water Supply

**District Goal:** Provide a reliable, cost-effective water supply through implementation of local water supply projects and securing the most cost effective source of imported water.

#### Fiscal Year 2021-22 District Objectives:

1. Complete Construction and initiate startup of SMRCUP in order to begin taking delivery of local water.
2. Take all necessary steps to ensure the District's LAFCO application to switch water wholesalers and reduce water costs continues to move towards LAFCO approval and a vote of District ratepayers.
3. Continue to evaluate funding alternatives including additional grants to help support water quality treatment improvements to the SMRCUP and to expand recycled water service to increase utilization of existing supplies.
4. Complete grant funded Indirect Potable Reuse (IPR) pilot project with Camp Pendleton to lay the groundwork to increase the reliability and availability of local water supplies.

### #2 Strategic Focus Area | Infrastructure

**District Goal:** Maintain reliable infrastructure to our customers in the most cost-effective manner.

#### Fiscal Year 2021-22 District Objectives:

1. Complete capital projects in accordance with approved budget and asset-management plan. Maintain utilization of District construction crews with proactive replacements versus reactive repairs. Meet pipeline and valve replacement targets to ensure long-term reliability of our water infrastructure.
2. Implement the asset-management plan to track project costs and help prioritize projects. Leverage this data to make continued improvements in determining the most effective project approaches.

### #3 Strategic Focus Area | Efficiency

**District Goal:** Create a District culture of continuous improvement through the implementation of systems, processes and goals for all aspects of the organization.

#### Fiscal Year 2021-22 District Objectives:

1. Continue implementation and reporting of Key Performance Measures (KPIs) for engineering, operations, finance, customer service and public outreach. Tie measures to nationally recognized Effective Utility Management (EUM) goals and measure against applicable national bench-marks.
2. Improve the efficiency of operations by developing additional metrics and reporting using the recently implemented Enterprise Asset Management (EAM) System.
3. Build on recently implemented regional collaboration programs and new contract service opportunities with Camp Pendleton to evaluate new ways to reduce operating costs through shared resources without reducing the level of service.

## #4 Strategic Focus Area | Community

**District Goal:** Improve experience for our customers to help provide a positive impact on the community we serve.

### Fiscal Year 2021-22 District Objectives:

1. Highlight all the progress made by the District through our 100 year anniversary celebration. Develop a well-attended, successful event that also highlights the key role the District plays in supporting the community.
2. Promote the District role in helping benefit the community. Expand high-school internship program through in person or virtual approach.
3. Continue to provide administrative support for the community benefit program proposal submitted to LAFCO.
4. Continue to improve customer engagement through social media and quarterly newsletters. Develop 2 additional short videos to highlight key aspects of the District.
5. Further improve the District budget to identify clearly to the public how costs are allocated and how resources are being managed. Continue to produce a CAFR and achieve a GFOA and California Society of Municipal Finance Officers (CSMFO) budget awards. Achieve District of Distinction from the California Special District's Association.

## #5 Strategic Focus Area | Workforce

**District Goal:** Develop a resilient organization so that key positions can be filled internally with capable staff with proper training and education.

### Fiscal Year 2021-22 District Objectives:

1. Expand implementation of the career development program that identifies future leaders in the organization and provides them training and a clear sense of future opportunities. Continue to leverage capabilities of existing staff and expand their responsibility when they show potential to develop a long-term pipeline for advancement of internal qualified candidates.
2. Continue to expand cross-training and external training program for staff, and provide new opportunities and challenges for motivated employees. Reconstitute programs and events to recognize employees and improve employee recognition program.
3. Participate in regional efforts to improve local education, training and internship programs to bring more qualified applications into the industry.
4. Participate in key local and national organizations in the water/wastewater industry, including participating in presentations on District and trainings to improve recognition of the District as an effectively managed and forward-looking utility.



## Budget Basis

The District’s accounting system and practices are based upon Generally Accepted Accounting Principles (GAAP) and are kept on an accrual basis. Under the accrual basis, revenues are recognized when earned and expenditures are recognized when a liability is incurred. The District’s budget is prepared on a cash basis, which means that projected revenues are recognized when cash is assumed to be received and projected expenses are recognized when cash is disbursed.

The District operates as an enterprise fund, which has a set of self-balancing accounts that record the financial position of each of the District’s services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent and self-sufficient, and also ensures service fees are set to recover only costs associated with the particular service.

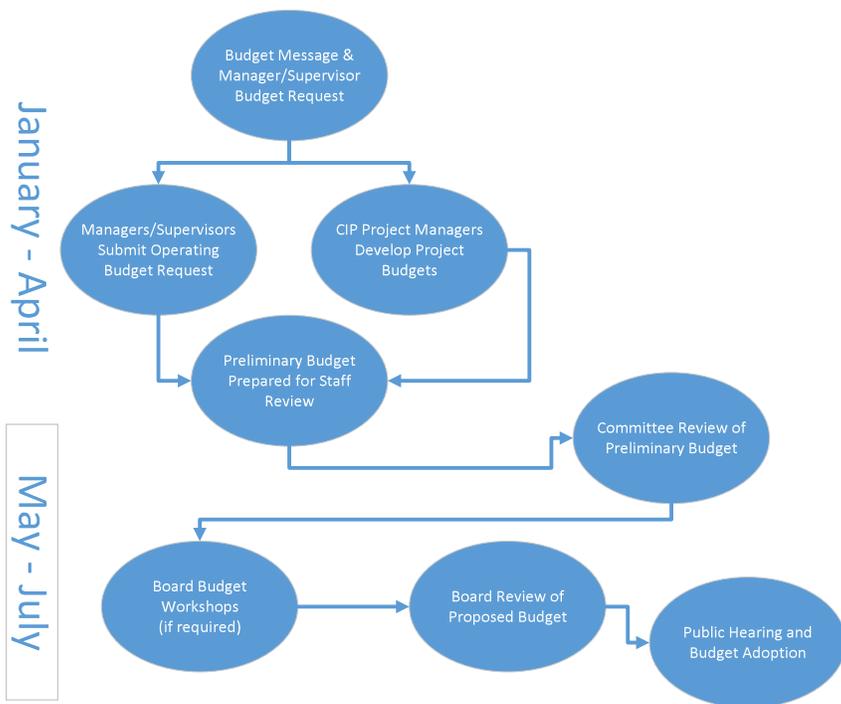
Budget adjustments are made if projects or expenditures are needed that fall outside the District’s adopted budget. These items are brought to the Board for approval and to appropriate the funds. A mid-year budget update is also provided to the Board each year to update spending trends and identify early any potential shortfalls. The District maintains a balanced budget, which means that sources of funds equals uses of funds. Reserve fund withdrawals, if necessary provide a source of funds. Likewise deposits to reserves are a use of funds and are unappropriated balances.

## Budget Process

Each year, the District develops and adopts a new budget for the upcoming fiscal year. The budgeting process begins in January and starts with the budget message. The budgeting process begins in January and starts with the budget message. The budget message establishes the priorities of the District in the next fiscal year and provides budget managers guidance on how to prioritize their budget needs. Along with the budget message, each manager/supervisor is provided a spreadsheet that has the current and projected operating expenditures for the current fiscal year and a placeholder for the proposed operating budget.

Each manager/supervisor then evaluates funding needs. Meetings with staff to review planned activities, as well as funding needs for services and equipment, are part of the process to develop and fill in the budgetary needs for each Division. Each manager/supervisor submits operating budgets by the end of February.

Figure #3 - Fallbrook District’s Annual Budget Process



While the operating budget is being developed, the CIP managers meet with the General Manager to develop the CIP project budgets for the upcoming fiscal year as well as the next five years of budgets. The CIP budgets are submitted by the end of February along with the operating budget.

The capital and operating budget are included in the District’s preliminary budget. Once assembled, the preliminary budget is reviewed by the General Manager and staff in a series of meetings. Adjustments are made to the preliminary budget and the revised preliminary budget is reviewed by the Fiscal Policy and Insurance Committee. Once the Committee’s comments are incorporated and the proposed budget developed, budget workshops with the Board, if required, are held. The final proposed budget is then sent to the Board for review. Once Board comments are incorporated into the document, a public hearing, if necessary, is held and the recommended budget is adopted.

**DISTRICT ORGANIZATIONAL CHART**

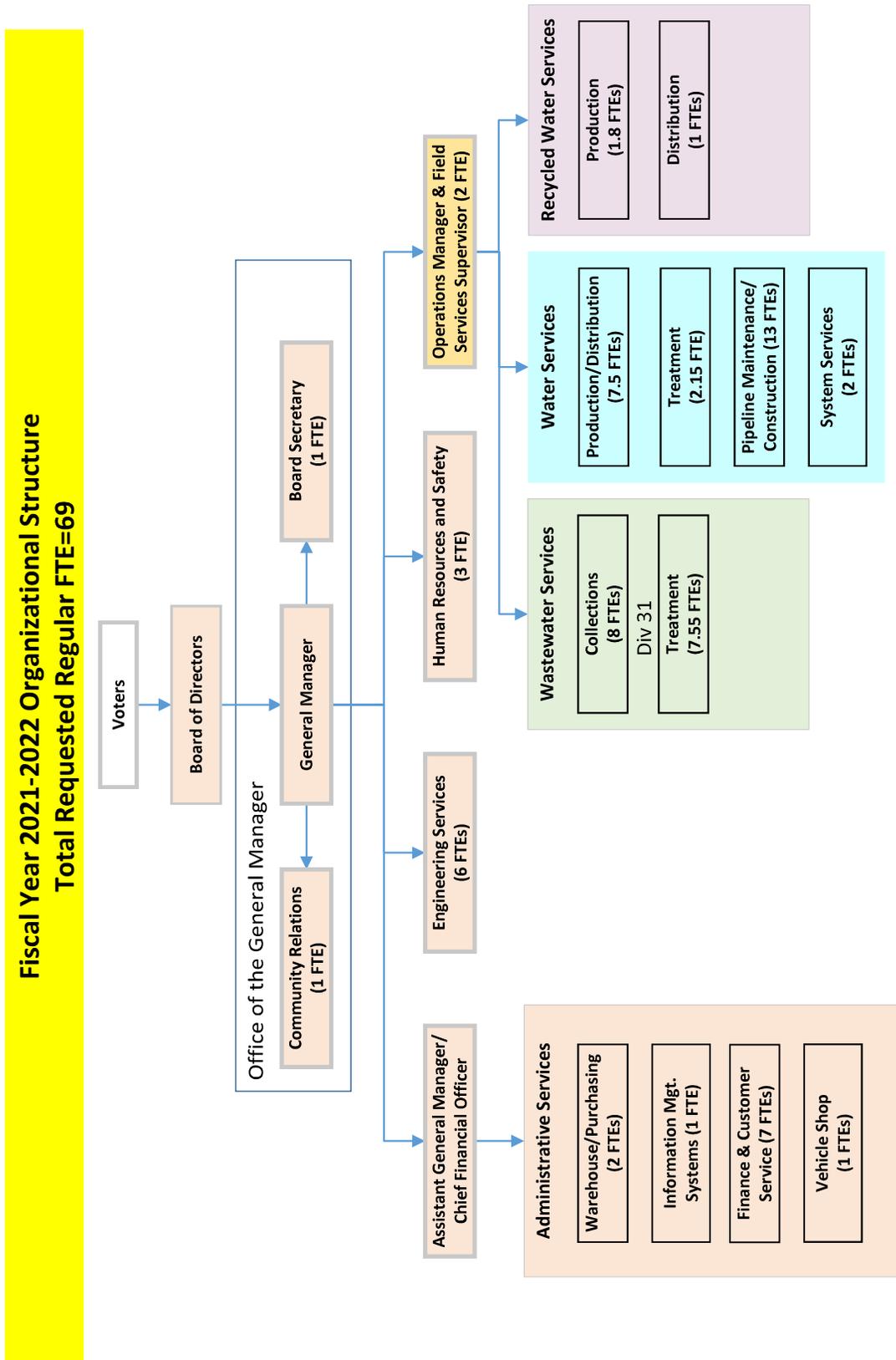
The District maintains an efficient level of staffing which requires an organizational structure that is very flat, with staff working across services and filling a variety of roles. The organizational chart provided is designed to illustrate the District’s structure and staffing levels. The Proposed Budget includes 69 Full Time Equivalent (FTE), which is 2.2 more FTEs from the previous Fiscal Year. This is due to the operational requirements of the new SMGTP. The boxes under Administrative, Water, Wastewater and Recycled Water Services represent functional groups called Divisions. However, in some cases (Human Resources & Engineering Services) a division of Administrative Services is identified separately. In these cases, the object is colored to illustrate that it is part of Administrative Services.

The Administrative Services department includes all functions that are necessary for the District to operate, but are not specific to Water, Wastewater or Recycled Water Services. While this includes a wide range of activities, these costs are recovered through water, wastewater and sewer rates. The Operating Budget Section provides a detailed discussion of how these costs are recovered through rates and charges. Each Division is a function with the Services. For example, Wastewater Services is comprised of two Divisions. The function of each Division is discussed in the Operating Budget Section.

Water, Wastewater and Recycled Water Services are the District’s other services. The Divisions within each of these services are shown on the organizational chart. Water services is comprised of four Divisions while the other services are broken into two Divisions. The organizational chart shows the Water, Wastewater and Recycled Water Services reporting to two managers that manage multiple services. The function of each division is discussed in the Operating Budget Section.



Figure #4 - Proposed Fiscal Year 2021-22 Organizational Structure <sup>1</sup>



FTE = Full-Time Equivalent

1. An FTE is the hours worked by one employee on a full-time basis for one year. This is equal to 2,080 hours.

## Fund Structure

---

The District's fund structure is set up to support water, wastewater and recycled water operations, and capital funding needs. Each fund is structured to receive certain revenues and fund certain expenditures. The District's working capital or operating funds receive operating and certain non-operating revenues and fund operating expenses for each of the services. The District's capital funds receive certain non-operating revenues that are restricted to capital uses and funds the District's capital expenditures, including a portion of debt service.

In 2017, the District completed the 2017 Water, Recycled Water and Wastewater Rate Study Report (Report). As part of the Report, the District's fund structure and target fund balances were re-evaluated and modified to meet future funding needs. The District's current working capital/operating structure, and a description of each fund and the fund's target balance is provided below:

### Water Services Funds

**Working Capital/Operating Fund:** To be established and maintained at a level of three months operating and maintenance expenses including water purchases. The primary source of funds for the Operating Fund are water sales, fixed service charge and pass-through charge revenues. The Operating Fund Target for Fiscal Year 2021-22 is **\$5.4** million.

**Rate Stabilization Fund:** To prevent "spikes" and mid-year changes in rates because of net revenue shortfalls due to weather conditions, state or federal legislation or other future uncertainties. This fund was primarily established to buffer variability of water deliveries from the SMRCUP in dry years. The target level is set equal to two years of debt service payments on the SMRCUP financing. Transfers from the Operating Fund are the source of funds for the Rate Stabilization Fund (RSF). The RSF target and balance are \$0 until the SMRCUP is operational but has been prefunded with the \$6.2 million from the sale of the District's Santa Margarita Property in Fiscal Year 2018-19.

### Wastewater Services Funds

**Working Capital/Operating Fund:** To be established and maintained at a level of three months operating and maintenance expenses. The primary source of funds for the Operating Fund are wastewater service charges and investment earnings. The Operating Fund Target for Fiscal Year 2021-22 is \$1.5 million.

**Rate Stabilization Fund:** To promote smooth and predictable rates and charges, a Rate Stabilization Fund is established with a target level equal to 10% of annual revenues. Transfers from the Operating Fund are the source of funds for the Rate Stabilization Fund. The Rate Stabilization Fund Target for Fiscal Year 2021-22 is \$0.9 million.

### Recycled Water Services Fund

**Working Capital/Operating Fund:** To be established at three months operating and maintenance expenses. The primary source of funds for the Operating Fund are water sales and fixed service charge revenues. The Operating Fund Target for Fiscal Year 2021-22 is \$0.1 million.

The District’s capital fund structure and their target balances are provided below:

**Water Services Capital Fund**

The primary source of funds are the Water and Pumping Capital Improvement charges, property tax and standby availability charge receipts, annexation fees, connection fees and meter fees. Target fund balance is set to the equivalent of three-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). The Fiscal Year 2021-22 target balance for the Water Capital Fund is **\$17.0** million.

Funds related to the 1958 Annexation and the DeLuz Service Area bond proceeds are tracked separately in the fund.

**Wastewater Services Capital Fund**

The primary source of funds are Wastewater Capital Improvement charges, connection fees, property tax receipts, and meter fees. Target fund balance is set to the equivalent of three-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). The Fiscal Year 2021-22 target balance for the Wastewater Capital Fund is \$5.7 million.

**Recycled Water Services Capital Fund**

Target fund balance is set to the equivalent of three-year average expenditures on recurring capital projects (i.e. pipeline renewal/replacement). Recycled Operating Fund transfers are the primary source of funds followed by a portion of the property tax receipts. The Fiscal Year 2021-22 target balance for the Water Capital Fund is \$0.4 million.

**Fund Summary**

The Districts total water target fund balance (**22.4 million**) equals the water working capital/operating fund (**5.4 million**), the rate stabilization fund (**0 million**) and the water services capital fund (**17.0 million**). The total recycled water target fund balance (0.5 million) equals the recycled working capital/operating fund (0.1 million) and the recycled water services capital fund (0.4 million). The total wastewater target fund balance (8.1 million) equals the wastewater working capital/operating fund (1.5 million), the rate stabilization fund (0.9 million) and the wastewater services capital fund (5.7 million). The District’s projected Fiscal Year 2021-22 year-end balances are shown in the table below.

**Table #1 - Total Fund Balances**

Service	Target Balance (Millions)	Projected Fiscal Year 2021-22	
		Ending Balance (Millions)	
Water	\$ 22.4	\$	16.8
Recycled Water	\$ 0.5	\$	0.5
Wastewater	\$ 8.1	\$	3.6
<b>Total</b>	<b>\$ 31.0</b>	<b>\$</b>	<b>20.9</b>

## Other Funds Maintained by the District

### Section 115 Pension and OPEB Trust Fund

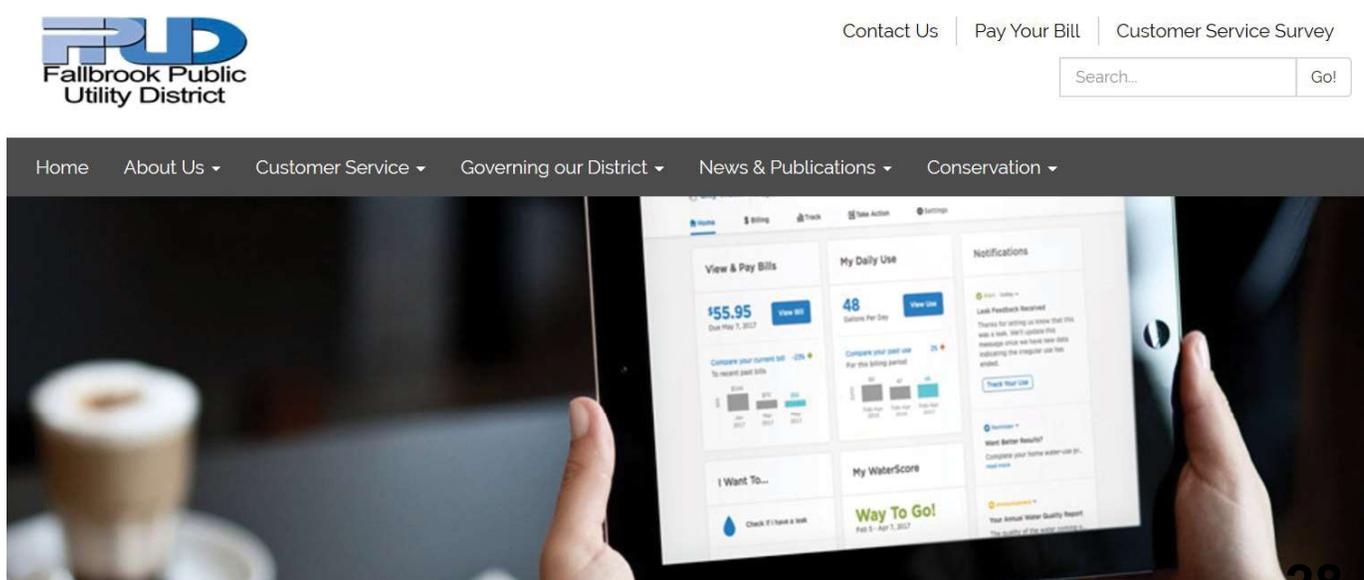
This fund was set up in Fiscal Year 2016-17 as an irrevocable trust established for the benefit of the pension and Other Post-Employment Benefits (OPEB) beneficiaries. The fund is managed by Public Agency Retirement Services (PARS) and is restricted in its use to funding pension and OPEB expenditures. The funds restricted for OPEB and pension costs are tracked in the fund. **The fund balance was \$6.5 million on March 31, 2020. The District OPEB obligation is over 90% funded and no additional contributions will be made this budget.** The District has developed a strategy to use returns from the fund to help off-set on-going OPEB costs. Details on the District's pension and OPEB obligations are provided in Appendix D.

## District's Financial Management Policies

The District maintains certain policies that govern aspects of the District's financial management. The District maintains the following policies:

- Debt Management Policy – Defines the District's debt management (available on website).
- Investment Policy – Establishes permitted investments in compliance with State Code (Article 18 of the District's Administrative Code)
- Fund Balance Policies – Sets target balances for reserves and working capital (Article 6 of the District's Administrative Code)
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure

These policies can be found on the District's website as standalone documents or as part of the District's Administrative Code. Appendix C also provides a copy of the District's Capitalization Policy and other policies for ease of reference.



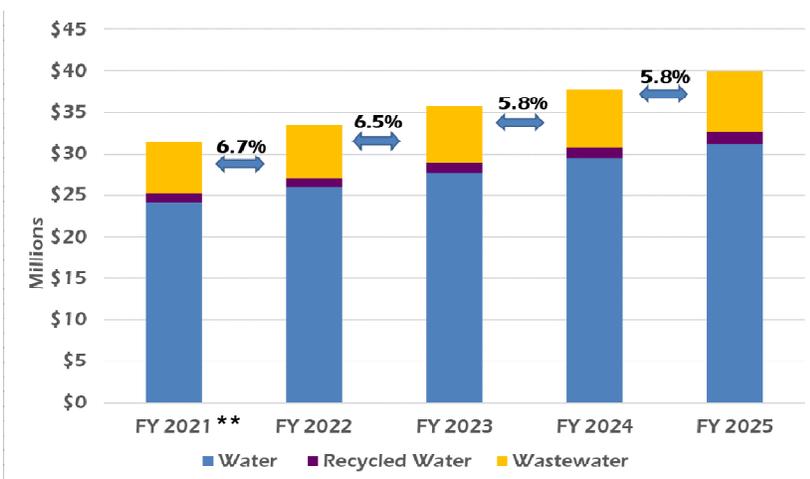
## Financial Summaries

The rate and charge increases included in the projections are in line with the increases approved by the Board in December 2017 as part of the 2017 Water, Recycled Water and Wastewater Rate Study Report and Proposition 218 process. Table 1 shows the approved increases through 2022. A similar increase is assumed for Calendar Years 2023, 2024 and 2025, but a rate and charge study will be conducted to determine the actual rate increases. Because the rate and charge increases are effective for a calendar year, the impact of a rate increase spans two fiscal years. The projections take this into account and show revenues on a fiscal year basis with the underlying rate increases. The Board will set the Calendar Year 2022 rates and charges in December 2021. Since no decision on the rate and charge increases has been made at this time, the Budget uses the approved rate and charge increases for Calendar Year 2022 and similar increases thereafter to project revenues. Chart 1 shows the projected increase in revenues due to the rate adjustments. The large increase in Fiscal Year 2020-2021 is driven by a return to average water sales levels. **Appendix A provides the detailed revenue, expense and fund balance projections for Water, Recycled Water, and Wastewater operations.**

Table #1 - Prop 218 Board Approved Maximum Rate Increases CY 2019-22

	CY 2019	CY 2020	CY 2021	CY 2022
<b>Water Rate increase</b>				
Approved Increase	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%
<b>Wastewater Rate increase</b>				
Approved Increase	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%	(up to) 4.5%
<b>Recycled Water Rate increase</b>				
Approved Increase	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%	(up to) 8.0%

Chart #1 - Projected Total Rate Revenues \*



### Looking Forward

The economic impacts and duration of the pandemic are still unknown. While the Budget uses rate and charge increases in line with the Board’s financial plan, the Board will take action to set rates in December 2021. At that time both the economic impacts and duration of the pandemic will be more clear. The Board will take these factors into consideration when adopting rates and charges and may elect to defer projects to mitigate rate increases.

\* Total Rate Revenue increases shown

\*\* Projected revenues based upon current District sales projections

This section provides an overview of the Districts overall projected financial operations. Table 2 provides a detailed summary of the District’s revenues and expenditures and the projected year-end fund balances. Revenues from the District’s water, recycled water and wastewater services are projected to increase over the projection period driven by rate and charge increases. Non-operating revenues are projected to remain relatively stable. Projected costs are assumed to rise at rates of inflation in line with levels assumed in the 2017 Water, Recycled Water and Wastewater Rate Study Report. Wholesale water rates are projected to increase annually in line with past averages driven by State and regional water supply

reliability related costs. In Fiscal Year 2021-22, the District is projecting deliveries from the SMRCUP and the related costs. The SMRCUP deliveries reduce the cost of purchased water as shown in [Table 2](#) and in Fiscal Year 2021-22 reduce projected purchased water costs by approximately -7.5%. For labor and non-labor, the result of the escalation is an average annual increase of 4.0%. This includes projected increase in the District’s pension and other benefits costs.

**Table #2 - Fallbrook Public Utility District’s Financial Projections**

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 24,099,177	\$ 25,883,905	\$ 27,700,339	\$ 29,377,746	\$ 31,156,721
Recycled Water	1,168,084	1,175,173	1,254,808	1,330,097	1,409,903
Wastewater	6,168,490	6,469,183	6,760,297	7,064,510	7,382,413
<b>Subtotal Revenue from Rates</b>	<b>\$ 31,435,751</b>	<b>\$ 33,528,261</b>	<b>\$ 35,715,444</b>	<b>\$ 37,772,353</b>	<b>\$ 39,949,037</b>
<b>Other Operating Revenue</b>					
<b>Pass-through Charges</b>					
MWD RTS Charge	\$ 296,466	\$ 320,360	\$ 336,270	\$ 352,639	\$ 370,828
SDCWA IAC Charge	501,751	551,466	608,048	668,499	716,206
Sundry*	11,000	11,000	11,000	11,000	11,000
SDCWA Incentive	-	-	-	-	-
<b>Other Revenue Subtotal</b>	<b>\$ 809,217</b>	<b>\$ 882,825</b>	<b>\$ 955,318</b>	<b>\$ 1,032,138</b>	<b>\$ 1,098,034</b>
<b>Non-Operating Revenue</b>					
Water Availability Charge**	\$ 204,000	\$ 204,000	\$ 204,000	\$ 204,000	\$ 204,000
1% Property Tax	2,111,907	2,122,467	2,133,079	2,143,744	2,154,463
Investment Earnings	141,500	122,855	127,255	133,621	143,980
Water CIP Charge	1,421,360	1,443,359	1,489,340	1,581,568	1,679,501
Pumping CIP Charge	32,756	32,756	32,756	32,756	32,756
Other Revenue	250,000	255,000	260,100	265,302	270,608
Water Capacity Fees	50,000	50,500	51,005	51,515	52,030
Wastewater CIP Charge	1,178,775	1,180,678	1,198,409	1,234,404	1,271,480
Wastewater Capacity fees	35,000	35,700	36,414	37,142	37,885
Federal Interest Rate Subsidy	110,677	97,977	84,516	70,261	55,178
<b>Subtotal Non-Operating Revenue</b>	<b>\$ 5,535,975</b>	<b>\$ 5,545,292</b>	<b>\$ 5,616,874</b>	<b>\$ 5,754,314</b>	<b>\$ 5,901,882</b>
<b>Total Revenues</b>	<b>\$ 37,780,943</b>	<b>\$ 39,956,328</b>	<b>\$ 42,287,551</b>	<b>\$ 44,558,686</b>	<b>\$ 46,948,800</b>

\* Sundry revenues is comprised of miscellaneous revenues and includes revenues from sale of assets taken out of service, which includes sale of equipment and vehicles.

\*\* Fee is charge on a per acre or parcel basis in service area, which is not expected to change.

Table #2 - Fallbrook Public Utility District’s Financial Projections, cont.

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
<b>Total Revenues</b>	\$ 37,780,943	\$ 39,956,328	\$ 42,287,551	\$ 44,558,686	\$ 46,948,800
<b>Operating Expenses</b>					
<b>Water Supply Costs</b>					
Purchased Water Costs***	\$ 13,788,880	\$ 10,541,652	\$ 10,022,554	\$ 10,753,331	\$ 11,416,539
Pumping Costs	180,000	189,000	198,450	208,373	218,791
SMRCUP Supply	-	1,117,081	1,512,560	1,541,977	1,572,276
Labor Costs	2,724,900	3,160,387	3,318,406	3,484,327	3,658,543
Fringe Benefits	1,974,048	2,141,829	2,281,048	2,429,316	2,550,782
Services, Materials & Supplies	1,932,397	4,052,400	4,173,972	4,299,191	4,428,167
Administrative Expenses	6,469,242	6,903,859	7,171,607	7,451,328	7,714,165
<b>Total Operating Expenses</b>	\$ 27,069,467	\$ 28,106,208	\$ 28,678,597	\$ 30,167,841	\$ 31,559,262
<b>Net Operating Revenues</b>	\$ 10,711,476	\$ 11,850,120	\$ 13,608,954	\$ 14,390,845	\$ 15,389,538
<b>Total Debt Service</b>	\$ 3,137,523	\$ 3,685,471	\$ 5,419,756	\$ 5,419,502	\$ 5,422,004
<b>Total Capital Expenditures</b>	\$ 37,595,000	\$ 18,908,000	\$ 7,590,686	\$ 7,459,018	\$ 8,038,361
<b>Total Expenditures</b>	\$ 67,801,990	\$ 50,699,679	\$ 41,689,039	\$ 43,046,362	\$ 45,019,627
<b>SRF Loan Proceeds</b>	\$ 31,500,000	\$ 11,600,000	\$ -	\$ -	\$ -
<b>Change in Net Position ****</b>	\$ 1,478,953	\$ 856,649	\$ 598,512	\$ 1,512,324	\$ 1,929,173
<i>Beginning Balances</i>	\$ 18,560,207	\$ 20,039,160	\$ 20,895,809	\$ 21,494,321	\$ 23,006,645
<i>Ending Balance</i>	\$ 20,039,160	\$ 20,895,809	\$ 21,494,321	\$ 23,006,645	\$ 24,935,818

\*\*\*Detail on purchased water costs provided on page 46. Purchased water costs include MWD RTS Charge and SDCWA IAC Charge.

\*\*\*\*Change in net position is Total Revenues minus Total Expenditures plus SRF Loan Proceeds..

Debt service and capital expenditures are deducted from the District’s Net **Operating Revenues to determine the change in Net Position for the fiscal year. It is important to note that funds from the SRF Loan offsets the use of the District’s financial resources as shown in the table above. The Fiscal Year 2021-22 Change in Net Position shows the District is building reserves in that particular fiscal year. In Fiscal Year 2021-22, the District is projecting a deposit of \$856.649 into reserves.**

The Beginning Balance shows the funds available at the start of the year and the Ending Balance shows the funds that are available after the year is over. The chart below shows the Target Reserve levels compared to the projected fund balances. **Appendix A provides the detailed revenue, expense and fund balance projections for Water, Recycled Water, and Wastewater operations.**

Chart #2 - District Fund Balances and Target Level



## Water Services Sources of Funds

The primary source of funds for water operations is water sales revenues. Water sales levels determine the District's water sales revenues. Because Fallbrook is located in a semi-arid region of the United States and is subject to significant fluctuations in the level of water demands, each year careful attention is paid to the projected level of water sales. Heading into the Fiscal Year 2021-22 budget cycle, California is again facing drought conditions with most reservoir levels below the historical average. At this point in time, no water use restrictions are in place but it is possible that some restrictions will be in place this summer. As a result of expected dry conditions with the potential for some use restrictions, water sales are projected to be in line with the District's long-term expected average sales level.

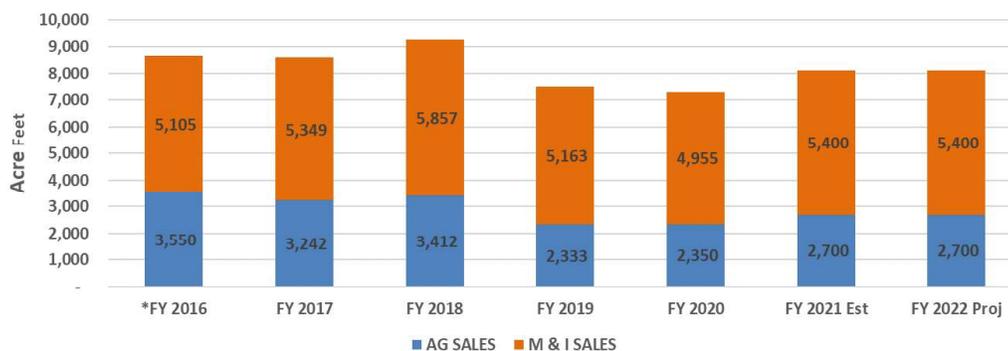
The District's sales over the last five years including the estimate for the current fiscal year and the projected water sales for the budget period are shown in Table 1. The table shows water production and total sales; production includes system losses, and water sales are units sold to customers. The sales are also split between Municipal & Industrial (M&I) customers and Agriculture (AG) customers. AG customers are eligible for a reduced water rate in exchange for a lower level of water supply reliability or put simply, agricultural customers have to cut back more than other customers when water restrictions are in place.

**Table #1 - Five-Year Production and Sales History**

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 Estimated	FY 2021-22 Projected
<b>Production</b>	9,573	9,193	10,090	8,043	7,986	8,650	8,650
<b>Total Sales</b> (adjusted for system losses)	<b>8,656</b>	<b>8,592</b>	<b>9,269</b>	<b>7,496</b>	<b>7,305</b>	<b>8,100</b>	<b>8,100</b>
<b>AG Sales</b>	3,550	3,242	3,412	2,333	2,350	2,700	2,700
<b>M&amp;I Sales</b>	5,105	5,349	5,625	5,163	4,955	5,400	5,400

As the table and chart shows, recent years have been impacted by restrictions in use levels, wet weather and changes in customer use patterns all of which have resulted in reduced water demands. The District's Fiscal Years 2018-19 and 2019-20 water demands were at or near the historic low levels. This persistent trend in lower water demands has caused the District to reevaluate how it projects future water demands. After looking at changes in the region's agricultural industry and domestic water use patterns, the District has reduced the long-term average water sales it uses for planning purposes last year. The projected Fiscal Year 2021-22 water sales use this new long-term average, which is an 11% decrease from what the District had previously used to project water sales largely due to the projected permanent loss land in agricultural production.

**Chart#1 - Water Sales Trends**



\*Drought rates in effect July 2015-May 2016. Both M&I and AG sales decreased in this period.

The Water Services operating and non-operating revenues are shown in Table 2. Water sales revenues are those collected by the District for water usage during a billing cycle. Each of the District's customers are charged a fee based upon their user class and water purchased in that billing period. The monthly water fixed service charge revenues are an important revenue stream for the District because they are not subject to volatility in water demands. The District also passes through certain fixed charges from the MWD and the SDCWA. The revenue projection for Fiscal Year 2021-22 provided here include rate and charge increases in line with what was approved by the Board as part of the 2017 Rate and Charge Study. The primary driver of the 6.0% revenue increase budget to budget is the increase in water rates and charges. Fiscal Year 2020-21 sales revenues are projected to be close to budgeted levels.

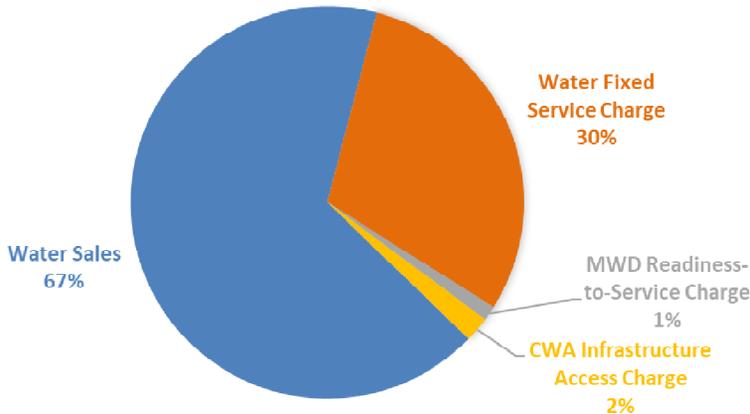
**Table #2 - Water Services Sources of Revenue**

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Operating Revenues:</b>					
Water Sales	\$ 14,260,513	\$ 16,867,076	\$ 16,624,043	\$ 17,883,218	6.0%
Water Fixed Service Charge	6,782,469	7,547,752	7,475,134	8,000,687	6.0%
MWD Readiness-to-Service Charge	309,956	291,331	296,466	320,360	10.0%
SDCWA Infrastructure Access Charge	455,824	501,670	501,751	551,466	9.9%
<b>Total Operating Revenue</b>	<b>\$ 21,808,762</b>	<b>\$ 25,207,828</b>	<b>\$ 24,897,394</b>	<b>\$ 26,755,730</b>	<b>6.1%</b>
<b>Non-Operating Revenues:</b>					
Water Capital Improvement Charge	\$ 1,368,292	\$ 1,455,281	\$ 1,421,360	\$ 1,443,359	-0.8%
Property Tax	1,146,897	1,050,225	1,050,225	1,055,476	0.5%
Water Availability Charge	204,418	204,000	204,000	204,000	0.0%
Water Capacity Charges	8,526	50,000	50,000	50,500	1.0%
Investment Earnings	248,504	100,000	100,000	98,576	-1.4%
Pumping Capital Improvement Charge	22,494	32,756	32,756	32,756	0.0%
Gain/Loss on sale of assets	(31,450)	-	-	-	N/A
Other Revenue	131,473	5,000	5,000	5,000	0.0%
Cell Phone Revenue	249,092	250,000	250,000	255,000	2.0%
<b>Total Non-Operating Revenue</b>	<b>\$ 3,348,246</b>	<b>\$ 3,147,262</b>	<b>\$ 3,113,341</b>	<b>\$ 3,144,667</b>	<b>-0.1%</b>
<b>Total Revenues</b>	<b>\$ 25,157,008</b>	<b>\$ 28,355,090</b>	<b>\$ 28,010,735</b>	<b>\$ 29,900,397</b>	<b>5.4%</b>

Water sales revenues represent 60% of the District's water operating revenues with the remaining 40% of revenues coming from other sources that are independent from water sales. This variable/fixed mix of revenue means that operating revenues are subject to volatility due to water sales levels. Managing this volatility requires good fiscal planning and the use of the Rate Stabilization Fund to make up shortfalls. The primary sources of non-operating revenues are the water Capital Improvement Charge, which is a fixed charge restricted to fund only capital projects, and property tax and Water Availability Charge revenues. Other revenues include pumping Capital Improvement Charge, investment earnings and other income.

The SMRCUP is being funded with a SRF loan. While not shown here as a source of funds, the expected \$70.3 million loan will provide funding for the project's costs. The project costs are expected to be \$27.2 million, \$31.5 million and \$11.6 million in Fiscal Years 2019-20, 2020-21 and 2021-22, respectively.

Chart #2 - Fiscal Year 2021-22 Water Services Operating Revenues

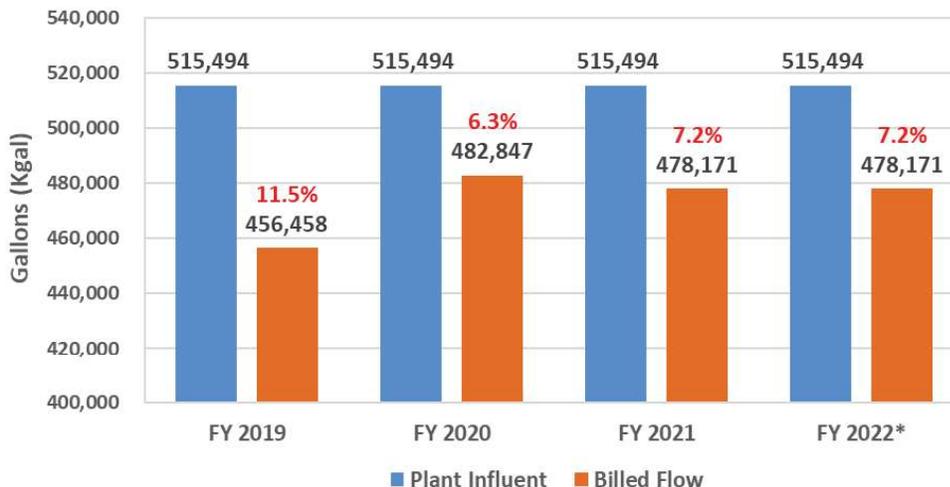


### Wastewater Services Sources of Funds

Wastewater revenue is relatively stable since it is billed based upon indoor water used. To estimate the amount of water used indoors that is returned to the sewer, a return to sewer factor is applied to each user class. For residential users, the return to sewer factor is applied to their 3-month winter average. The winter months, which are typically wet, allow indoor use to be estimated since outdoor/landscape use is at a minimum. However, even the winter average use is adjusted to reflect some level of residential outdoor/landscape, which is not returned to the sewer. This methodology limits the impact weather has on billable sewer flows. The revenue projection for Fiscal Year 2021-22 provided here includes rate and charge increases in line with what was approved by the Board and billable wastewater flows in line with historic wastewater flows at the District water reclamation plant.

Historic averages provide a good basis from which flows and revenue projections can be evaluated. The chart below shows the average annual flows at the plant (Plant Influent) and the billable wastewater flows projected for this budget period. The variance between Plant Influent and Billable Flows is shown in red. The projection for Fiscal Year 2021-22 shows billable flows at the Fiscal Year 2020-21 plant flow levels. Prior to adopting rates and charges in December 2021, staff will develop a recommendation for changes in the residential billable flow methodology.

Chart #3 - Wastewater Services Annual Flows



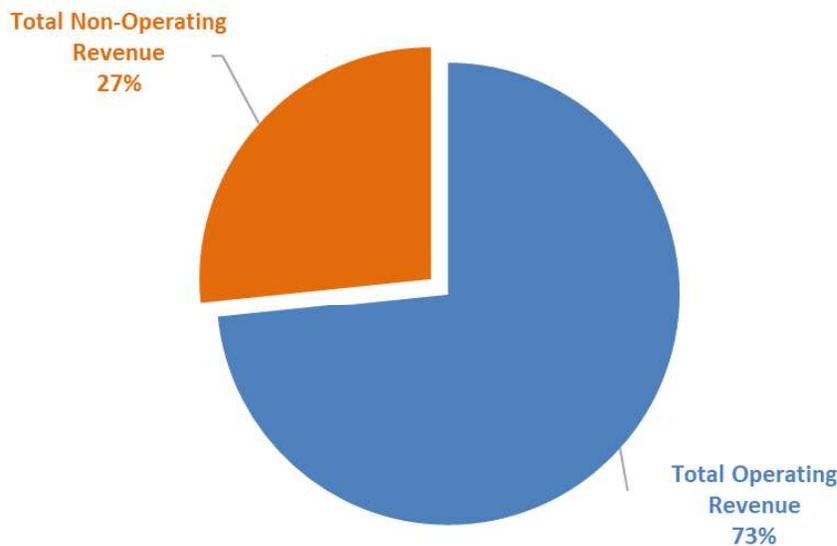
\* Projection based on Fiscal Year 2020-21 levels..

Wastewater Services operating and non-operating revenues are shown in Table 3. The primary source of operating revenue for Wastewater Services is the Wastewater Service Charge. The primary non-operating revenues are the Wastewater Capital Improvement charge, which, like the Water Capital Improvement Charge, is restricted to fund only capital projects. Other non-operating revenues include property tax revenues.

**Table #3 - Wastewater Services Sources of Revenue**

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Operating Revenue</b>					
Wastewater Service Charges	\$ 5,924,878	\$ 6,186,330	\$ 6,168,490	\$ 6,469,183	4.6%
Sundry Other Revenue	6,590	1,000	1,000	1,000	0.0%
<b>Total Operating Revenue</b>	<b>\$ 5,931,468</b>	<b>\$ 6,187,330</b>	<b>\$ 6,169,490</b>	<b>\$ 6,470,183</b>	<b>4.6%</b>
<b>Non-Operating Revenue</b>					
Wastewater Capital Improvement Charge	\$ 1,168,350	\$ 1,207,132	\$ 1,178,775	\$ 1,180,678	-2.2%
Property Tax	1,006,095	916,985	1,011,126	1,016,181	10.8%
Wastewater Capacity Charges	98,581	35,000	35,000	35,700	2.0%
Investment Earnings	131,547	40,000	40,000	20,796	-48.0%
Federal Interest Rate Subsidy	123,762	110,677	110,677	97,977	-11.5%
<b>Total Non-Operating Revenue</b>	<b>\$ 2,528,335</b>	<b>\$ 2,309,794</b>	<b>\$ 2,375,578</b>	<b>\$ 2,351,332</b>	<b>1.8%</b>
<b>Total Revenues</b>	<b>\$ 8,459,803</b>	<b>\$ 8,497,123</b>	<b>\$ 8,545,068</b>	<b>\$ 8,821,516</b>	<b>3.8%</b>

**Chart #4 - Fiscal Year 2021-22 Wastewater Services Operating Revenues**



## Recycled Water Services Sources of Funds

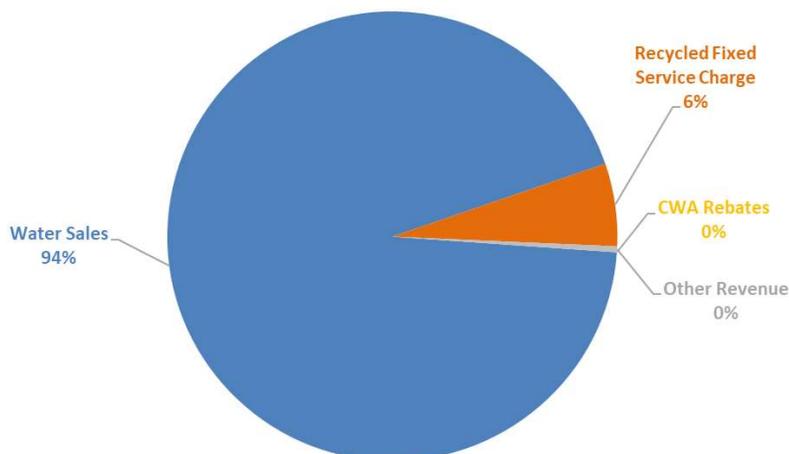
While recycled water sales are subject to weather driven water demands, these customers are not subject to use restrictions due to drought. It is for this reason that many have chosen to be a recycled water customer. While the District is expanding the distribution system, the customer base is relatively small and demands have remained static even with additional customers. Therefore, the historic average adjusted for a small level of growth provide a good basis from which revenues can be budgeted from. The accompanying chart shows the average annual recycled water sales and the sales projected for this budget period. The revenue projection for Fiscal Year 2021-22 provided here include rate and charge increases in line what was approved by the Board.

Recycled Water Services operating and non-operating revenues are shown in Table 4. The primary source of operating revenue for Recycled Water Services is water sales revenue. Recycled Water Services customers pay a per unit rate for recycled water. The District is actively exploring opportunities to more fully utilize the recycled water available. This includes expanding retail sales and utilizing the recycled water as part of an indirect potable water supply. Other operating revenues include the Fixed Recycled Water Charge. Investment earnings makes up the only non-operating revenues.

**Table #4 - Recycled Water Services Sources of Revenue**

	FY 2019-20	FY 2020-21		FY 2021-22	Budget to
	Actual	Budget	Projected	Budget	Budget Increase (%)
<b>Operating Revenues</b>					
Water Sales	\$ 949,040	\$ 1,122,142	\$ 1,102,620	\$ 1,105,108	-16.4%
Recycled Fixed Service Charge	51,745	66,099	65,464	70,066	1.7%
Other Revenue	5,000	5,000	5,000	5,000	0.0%
CWA Rebates	53,520	-	-	-	-100.0%
<b>Total Operating Revenue</b>	<b>\$ 1,059,305</b>	<b>\$ 1,193,241</b>	<b>\$ 1,173,084</b>	<b>\$ 1,180,173</b>	<b>-18.4%</b>
<b>Non-Operating Revenues</b>					
Property Tax	52,983	55,275	50,556	50,809	0.5%
Investment Earnings	3,745	1,500	1,500	3,433	-89.6%
<b>Total Non-Operating Revenue</b>	<b>\$ 56,728</b>	<b>\$ 56,775</b>	<b>\$ 52,056</b>	<b>\$ 54,242</b>	<b>-19.6%</b>
<b>Total Revenues</b>	<b>\$ 1,116,033</b>	<b>\$ 1,250,016</b>	<b>\$ 1,225,140</b>	<b>\$ 1,234,415</b>	<b>-18.5%</b>

**Chart #5 - Fiscal Year 2021-22 Recycled Water Services Operating Revenues**



## Operating Budget

### Overview

The District, while relatively small, provides a wide range of services to residents. This section of the budget document provides a detailed description of the District’s budgeted use of funds (operating expenses) for each division/function. To make the budget easy to follow, the District’s Operating Budget is broken out into its main cost centers. The cost center breakdown is: Administrative Services, Water Services, Wastewater Services and Recycled Water Services (collectively the Services).

This section also provides a detailed breakdown of the District’s employer-paid employee benefits and debt-service costs. Each of the District’s Services are allocated a portion of the District’s benefits costs based upon the Services’ share of total labor costs. The allocation of the benefits’ costs is detailed in the benefit cost section and each of the Districts Services’ operating budgets. It is denoted as Allocated Benefits Expenditures on each Services’ Total Operating Budget Summary Table.

In addition to a detailed budget to fund day-to-day operations, this section also provides a description of the divisions within each of the Services. Each division performs a specific program or function. The Services budget’s are developed to support the long and short-term strategic goals of the District.

It should be noted that the District has restructured its accounting system and chart of accounts. As a result of these changes, year to year comparison of the line items are now possible and allow line item comparisons.

**Table #1 - Overview of Total Services Operating Budget**

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 5,459,032	\$ 5,316,951	\$ 5,174,700	\$ 5,716,546	7.5%
Total Non-Labor	4,407,278	4,515,332	4,300,633	6,667,765	47.7%
<b>Operating Total</b>	<b>\$ 9,866,310</b>	<b>\$ 9,832,283</b>	<b>\$ 9,475,333</b>	<b>\$ 12,384,311</b>	<b>26.0%</b>
Benefits Expenses	2,994,316	3,625,254	3,625,254	3,874,164	6.9%
<b>Total Services Operating Budget</b>	<b>\$ 12,860,626</b>	<b>\$ 13,457,536</b>	<b>\$ 13,100,587</b>	<b>\$ 16,258,475</b>	<b>20.8%</b>

\* Total Labor does not include District’s Benefits

### Administrative Services

Administrative Services includes a wide range of functions that support the District’s core services: water, wastewater and recycled water. The Organizational Chart on page 21 shows the broad scope of functions captured in the Administrative Services budget. Administrative Service functions include:

- Manages District operations and capital projects
- Implements and maintains District policies and procedures
- Directs and maintains District documents and archives
- Supports activities of the Board of Directors
- Coordinates District legal activities
- Oversees the District’s financial management including debt management, budget, annual audit, treasury and other required financial reporting

- Maintains customer accounts and billing for water, wastewater and recycled water
- Oversees permit process, right of way and District Geographic Information System (GIS) data
- Manages District contracts, and service and construction services procurement
- Administers the District’s water conservation and agricultural water programs
- Creates and administers public outreach activities
- Provides human resources support to the District
- Coordinates and monitors District safety and risk management programs

Administrative Services is broken down into divisions that support a specific Administrative Service’s function. Administrative Services historic and proposed staffing levels are shown in Table 2.

**Table #2 - Administrative Services Approved Positions**

<b>Position</b>	<b>Actual FTE* FY 2019-20</b>	<b>Actual FTE FY 2020-21</b>	<b>Proposed FTE FY 2021-22</b>
General Manager	1.0	1.0	1.0
Board Secretary	1.0	-	-
Executive Assistant/ Board Secretary	-	1.0	1.0
Assistant General Manager/Chief Financial Officer	1.0	1.0	1.0
Human Resources Manager	1.0	1.0	1.0
Senior Accountant	1.0	1.0	1.0
Accounting Technician	2.0	2.0	2.0
Management Analyst	1.0	1.0	1.0
Safety & Risk Officer	1.0	1.0	1.0
Information Systems Tech	1.0	1.0	1.0
Senior Engineer	1.0	1.0	-
Engineering Manager	-	-	1.0
Engineering Supervisor	1.0	-	-
Administrative Office Specialist	1.0	1.0	1.0
Engineering Technician	3.0	3.0	3.0
GIS Specialist	1.0	1.0	1.0
Operations Specialist	1.0	1.0	1.0
Public Affairs Specialist	0.8	0.8	1.0
Customer Service Specialist	2.0	2.0	2.0
Customer Service Representative	1.0	1.0	1.0
Purchasing Warehouse Supervisor	1.0	1.0	1.0
Warehouse Purchasing Specialist	1.0	1.0	1.0
Equipment Mechanic	1.0	1.0	1.0
<b>TOTAL FTE</b>	<b>24.8</b>	<b>23.8</b>	<b>24.0</b>

\*FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**The Office of the General Manager**

- Oversees all District operations
- Plans, organizes and conducts Board of Directors activities and meetings in addition to supporting Board policy development and execution

- Manages legal activities including public hearing and other required notices
- Serves as public liaison to the Community and other entities (i.e. San Diego County Board member) and manages public relations
- Manages District documents, contracts, and Board of Director meeting agendas and minutes

**Finance and Customer Services**

- Manage and maintain the District's financial and customer information
- Develop and monitor the District's annual budget
- Manage the annual financial audit and develop financial reports
- Maintain and execute the District's financial policies and procedures
- Manage the District's payroll process, and treasury and debt-management functions
- Establish and monitors the District's internal controls
- Maintain customer service counter and phone line for questions and payment
- Generate and monitor customer bills

**Warehouse and Purchasing**

- Issue Requests for Proposals, and solicitations for equipment, supplies and materials
- Maintain and manage District equipment, supplies and materials inventory
- Manage purchasing contracts for materials, supplies, equipment and services

**Human Resources**

- Establish and maintain effective employee relations
- Implement and administer District personnel policies, practices and procedures, and various programs including the performance appraisal system
- Manage recruitment and selection activities, employee benefits and recognition, and training and technical certification
- Support Memorandum of Understanding (MOU) negotiations

**Information Management**

- Maintain, troubleshoot and upgrade the District's network servers, workstations, copiers and printers, phone system and wireless services
- Create and maintains the District's information system's policies and procedures
- Manage the security of the District's information management systems

**Engineering Services**

- Oversee implementation of the District's Capital Improvement Program
- Maintain records of District easements, as-built facility drawings and facility location drawings
- Design, develop and maintain the District GIS program
- Provide customer service for water and sewer service

- Process water and sewer requests for new service
- Support outside developer and County projects
- Participation in County subdivision map process for new development
- Assess water and sewer availability and develop requirements
- Review and plan check developer water and sewer improvement plans
- Inspect and document developer installation of District facilities

**Vehicle Services/Shop**

- Service and repair small and large equipment and vehicles

**Safety and Risk**

- Manage and administer the District’s safety and risk program
- Investigate claims against the District and conduct accident/incident investigations
- Maintain and update the District’s Emergency Response Plan and conduct vulnerability assessments

**Table #3 - Administrative Services Total Operating Budget Summary**

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor*	\$ 2,512,593	\$ 2,421,728	\$ 2,449,800	\$ 2,556,158	5.6%
Total Non-Labor	2,375,977	2,392,432	2,368,236	2,615,365	9.3%
<b>Services Operating Total</b>	<b>\$ 4,888,570</b>	<b>\$ 4,814,160</b>	<b>\$ 4,818,036</b>	<b>\$ 5,171,523</b>	<b>7.4%</b>
Allocated Benefits Expenditures**	1,378,174	1,651,206	1,651,206	1,732,336	4.9%
<b>Total Services Budget</b>	<b>\$ 6,266,744</b>	<b>\$ 6,465,366</b>	<b>\$ 6,469,241</b>	<b>\$ 6,903,859</b>	<b>6.8%</b>

\* Total Labor does not include District’s Benefits

\*\* Includes transfer to Pension/OPEB Trusts



Table #4 - Administrative Services, Division Budget to Budget Comparison

Description	FY 2019-20 Actual	FY 2020-21		FY 2021-22 Budget	Budget to Budget Change (%)
		Budget	Projected		
<b>Office of the General Manager</b>					
<b>Labor:</b>					
Salaries	\$474,943	\$ 431,934	\$ 416,100	\$ 453,099	4.9%
<b>Non-Labor:</b>					
Director Expenses	31,192	40,000	20,174	40,000	0.0%
General & Administrative	14,858	12,700	15,006	12,700	0.0%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	88,899	68,300	44,159	92,300	35.1%
Professional Services	451,519	316,000	473,642	400,000	26.6%
Memberships/Training/Permits	74,141	96,600	86,787	96,600	0.0%
Santa Margarita Watermaster	119,829	123,429	116,402	128,412	4.0%
<b>Total Non-Labor</b>	<b>\$ 780,438</b>	<b>\$ 657,029</b>	<b>\$ 756,169</b>	<b>\$ 770,012</b>	<b>17.2%</b>
<b>Division Operating Total</b>	<b>\$ 1,255,380</b>	<b>\$ 1,088,963</b>	<b>\$ 1,172,269</b>	<b>\$ 1,223,111</b>	<b>12.3%</b>

<b>Finance &amp; Customer Service</b>					
<b>Labor:</b>					
Salaries	\$ 734,550	\$ 757,348	\$ 762,000	\$ 793,026	4.7%
<b>Non-Labor:</b>					
Contractor Services	19,769	19,000	30,506	21,000	10.5%
Equipment (Non Capital)	5,277	4,000	-	4,000	0.0%
Materials/Services/Supplies	183,364	195,700	136,675	197,200	0.8%
Professional Services	110,091	136,000	114,000	166,000	22.1%
Memberships/Training/Permits	1,629	2,700	935	2,700	0.0%
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 320,131</b>	<b>\$ 357,400</b>	<b>\$ 282,116</b>	<b>\$ 390,900</b>	<b>9.4%</b>
<b>Division Operating Total</b>	<b>\$ 1,054,681</b>	<b>\$ 1,114,748</b>	<b>\$ 1,044,116</b>	<b>\$ 1,183,926</b>	<b>6.2%</b>

<b>Warehouse &amp; Purchasing</b>					
<b>Labor:</b>					
Salaries	\$ 183,341	\$ 169,919	\$ 210,500	\$ 171,869	1.1%
<b>Non-Labor:</b>					
Contractor Services	133,307	115,000	115,000	120,000	4.3%
Equipment (Non Capital)	3,570	4,000	668	500	-87.5%
Materials/Services/Supplies	132,292	98,450	114,105	106,800	8.5%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	635	1,000	1,093	1,000	0.0%
Utilities **	46,361	45,000	47,137	45,000	0.0%
<b>Total Non-Labor</b>	<b>\$ 316,166</b>	<b>\$ 263,450</b>	<b>\$ 278,003</b>	<b>\$ 273,300</b>	<b>3.7%</b>
<b>Division Operating Total</b>	<b>\$ 499,506</b>	<b>\$ 433,369</b>	<b>\$ 488,503</b>	<b>\$ 445,169</b>	<b>2.7%</b>

\*\*Utility cost increase driven by actual cost levels.

Table #4 - Administrative Services, Division Budget to Budget Comparison, cont.

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to
	Actual	Budget	Projected	Budget	Budget Change (%)
<b>Human Resources</b>					
<b>Labor:</b>					
Salaries	\$ 211,774	\$ 198,212	\$ 238,100	\$ 239,473	20.8%
<b>Non-Labor:</b>					
Contractor Services	13,874	31,325	20,309	61,325	95.8%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	16,459	17,400	16,035	27,400	57.5%
Professional Services	78,201	10,000	7,443	10,000	0.0%
Memberships/Training/Permits	68,371	95,950	50,165	95,550	-0.4%
Education Funding	3,215	30,000	1,085	3,000	-90.0%
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 180,120</b>	<b>\$ 184,675</b>	<b>\$ 95,037</b>	<b>\$ 197,275</b>	<b>6.8%</b>
<b>Division Operating Total</b>	<b>\$ 391,894</b>	<b>\$ 382,887</b>	<b>\$ 333,137</b>	<b>\$ 436,748</b>	<b>14.1%</b>

\*\*Utility cost increase driven by actual cost levels..

<b>Information Management</b>					
<b>Labor:</b>					
Salaries	\$ 89,345	\$ 93,937	\$ 89,600	\$ 96,286	2.5%
<b>Non-Labor:</b>					
Contractor Services	35,532	58,150	63,000	62,150	6.9%
Equipment (Non Capital)	18,118	25,000	40,073	25,000	0.0%
Materials/Services/Supplies	133,927	145,728	150,000	185,728	27.4%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 187,578</b>	<b>\$ 228,878</b>	<b>\$ 253,073</b>	<b>\$ 272,878</b>	<b>19.2%</b>
<b>Division Operating Total</b>	<b>\$ 276,922</b>	<b>\$ 322,815</b>	<b>\$ 342,673</b>	<b>\$ 396,164</b>	<b>14.4%</b>

\*\*Utility cost increase driven by actual cost levels..

<b>Engineering Services</b>					
<b>Labor:</b>					
Salaries	\$ 593,237	\$ 475,800	\$ 476,500	\$ 480,913	1.1%
<b>Non-Labor:</b>					
Contractor Services	345	2,500	14,080	10,000	300.0%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	52,309	42,000	40,000	42,000	0.0%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	170	500	-	500	0.0%
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 52,824</b>	<b>\$ 45,000</b>	<b>\$ 54,080</b>	<b>\$ 52,500</b>	<b>16.7%</b>
<b>Division Operating Total</b>	<b>\$ 646,061</b>	<b>\$ 520,800</b>	<b>\$ 530,580</b>	<b>\$ 533,413</b>	<b>2.4%</b>

\*\*Utility cost increase driven by actual cost levels..

Table #4 - Administrative Services, Division Budget to Budget Comparison, cont.

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Safety &amp; Risk</b>					
<b>Labor:</b>					
Salaries	\$ 148,508	\$ 204,842	\$ 147,400	\$ 213,682	4.3%
<b>Non-Labor:</b>					
Contractor Services	13,385	18,500	19,607	19,000	2.7%
Equipment (Non Capital)	37,929	35,000	32,764	35,000	0.0%
Materials/Services/Supplies	6,825	27,500	7,375	29,500	7.3%
Professional Services	203,464	275,000	275,000	275,000	0.0%
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 261,602</b>	<b>\$ 356,000</b>	<b>\$ 334,746</b>	<b>\$ 358,500</b>	<b>0.7%</b>
<b>Division Operating Total</b>	<b>\$ 410,110</b>	<b>\$ 560,842</b>	<b>\$ 482,146</b>	<b>\$ 572,182</b>	<b>2.0%</b>

\*\*Utility cost increase driven by actual cost levels.

<b>Vehicle Services &amp; Shop</b>					
<b>Labor:</b>					
Salaries	\$ 76,896	\$ 89,735	\$ 109,600	\$ 107,811	20.1%
<b>Non-Labor:</b>					
Contractor Services	24,778	25,000	25,011	25,000	0.0%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	252,342	275,000	290,000	275,000	0.0%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 277,120</b>	<b>\$ 300,000</b>	<b>\$ 315,011</b>	<b>\$ 300,000</b>	<b>0.0%</b>
<b>Division Operating Total</b>	<b>\$ 354,015</b>	<b>\$ 389,735</b>	<b>\$ 424,611</b>	<b>\$ 407,811</b>	<b>4.6%</b>

\*\*Utility cost increase driven by actual cost levels.

### Fiscal Year 2020-21 Accomplishments

- Coordinated 12 safety-related remote training sessions
- Continued working with LAFCO on detachment efforts
- Coordinated development and updates of District’s COVID Response Plan and administered COVID-related policies and protocols
- Conducted 7 recruitments resulting in 3 internal promotions/transfers and 4 newly-hired employees
- Created Career Development Plans for 10 Employees
- Coordinated/facilitated 20+ remote trainings, including Ethics in the Workplace and the Women in Water Conference
- Successfully converted Customer Service to a fully remote work environment during pandemic.
- Continued integration of CityWorks into Customer Service work and service order process

- Enhanced information technology systems security by implementing a new security software and a management software for District mobile devices.
- Fleet services expanded Teletrek utilization to implement best management practices for fleet vehicles and life-cycle cost management.
- Completed the implementation of Project Management in SpringBrook
- Executed a public debt offering that refunded an outstanding state loan and saved the District \$1.6 million on a net present value basis.
- Continued construction of the SMRCUP on schedule, and added GAC treatment facilities
- Completed District tank recoating program
- Improved planned shutdown process to better serve effected customers during COVID

### **Fiscal Year 2021-22 Goals and Objectives**

- Participate and finalize ERP for compliance with 2018 AWIA
- Safety checklist forms converted to paperless electronic Jot-Forms
- Coordinate awards and annual Safety luncheon
- Submit for ACWA JPIA H.R. LaBounty Award
- Coordinate Total Compensation Study
- Participate in labor negotiations and update Memorandums of Understanding
- Update Personnel Regulations
- Document finance policy and procedure guides
- Evaluate banking, billing and payment services and consider utilizing a lock box for mailed in payments.
- Start SMGWTP operations
- Execute CIP and catch up on pipeline replacement projects

### **Key Performance Indicators**

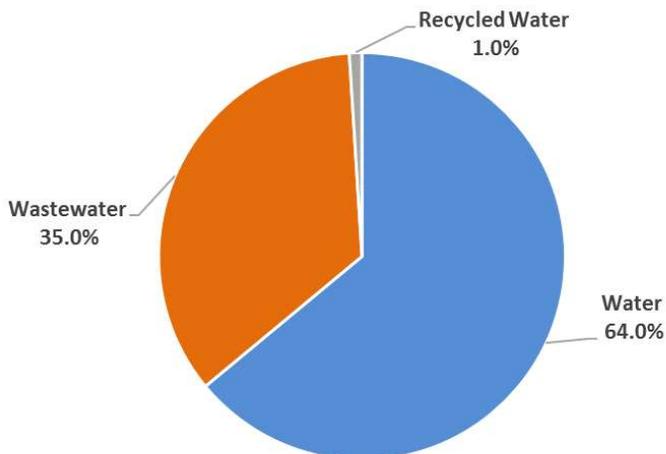
- Maintain a Workers Comp Experience Modification Rate below 1%; in FY 2021 rate was 0.91%
- Maintain an Emergency Response Training at a minimum of 25%; in FY 2021 training rate was 26.72%
- Maintain an average customer service call wait time of less than 3 minutes; in FY 2021 wait time was approximately 1:10
- Maintain an inventory shrinkage rate of less than 1%; in FY 2021 shrinkage was 0.3%
- Reduce the number of audit findings from one year to the next. The District's last audit received an unmodified opinion with no findings



### Cost Allocation of Administrative Services

Because Administrative Services acts like an internal service fund and supports the District’s revenue generating activities, the cost must be recovered through rates and charges levied by the core services; water, wastewater and recycled water. Administrative costs are allocated to water, wastewater and recycled water services operating budgets based upon the share of total accounts in each of the services. The accompanying chart shows the breakdown of accounts and the Administrative Service Allocations.

Chart #1 - Administrative Services Cost Allocation



Total Number of Accounts: 14,317

### Water Services

The District provides Water Services to approximately 9,200 meters within the District’s service area. The largest component of the Water Services’ operating budget is the cost of water. The District buys water from the SDCWA, which is the region’s wholesale water provider. This year is the first year the District will produce treated water from its Santa Margarita River water rights. Water Services provide the following functions:

- Operate and maintain an advanced membrane ground water treatment plant (SMGTP) to produce quality treated water for the District’s customers
- Manage the production of water and the delivery of water from the District’s wholesale water supplier and the delivery of water to the District’s customers
- Manage an asset management program that optimizes life-cycle costs and maintains, repairs and replaces system assets
- Operate water system assets including reservoirs, valves, pump stations, control facilities
- Maintain the District’s Water Service’s rights of way
- Manage the District’s water meters and Smart Meter replacement program



Water Services is broken down into divisions that support a specific function. Some changes to labor allocations have been made to align expenditures with cost of service principles given the addition of the Treatment Division. Water Services historic and proposed staffing levels are shown in Table 5.

**Table #5 - Water Services Approved Positions**

<b>Position</b>	<b>Actual FTE FY 2019-20</b>	<b>Actual FTE FY 2020-21</b>	<b>Proposed FTE FY 2021-22</b>
Field Services Manager	1.0	1.0	1.0
Utility Technician	4.75	5.5	4.5
Utility Worker I & II	9.5	9.5	11.5
System Service/ Shop Supervisor	1.0	1.0	-
Meter Services/ Construction Supervisor	-	-	1.0
Operations Manager	1.0	1.0	0.75
System Operations Supervisor	1.0	1.0	1.0
Systems Operator I/II	3.0	3.0	4.0
Senior Instrumentation & Control Specialist	1.0	1.0	-
SCADA/Electrical/Maintenance Supervisor	-	-	0.75
Instrumentation, Electrical & Controls Tech	2.0	2.0	1.5
Backflow/ Cross Connection Tech	0.75	-	-
Senior Maintenance Technician	-	-	0.2
Maintenance Technician I/II	-	-	0.2
<b>TOTAL FTE</b>	<b>25.0</b>	<b>25.0</b>	<b>26.4</b>

\*FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**Treatment**

- Operates and maintains a new groundwater treatment plant to treat water delivered by Camp Pendleton

**Production and Distribution**

- Schedule and manages water deliveries to the District to meet customer demands
- Operate water system assets and monitors system conditions including water pressure and water quality
- Maintain crews to operate the system and respond to customer inquiries

**Pipeline Maintenance and Construction**

- Maintain the District’s Water Services assets
- Manage all Water Services repairs and asset replacements
- Replace aged water mains and valves
- Maintain 24-hour coverage of large water main breaks
- Maintain all right-of-way and interconnects with neighboring districts

**System Services**

- Meter reading, meter repair and meter exchange programs and delinquent account lock/unlocking

**District’s  
New Water  
Treatment  
Plant**

Able to produce enough drinking water to fill 12 olympic size pools a day.

Table #6 - Water Services, Total Operating Budget Summary

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 1,628,552	\$ 1,449,807	\$ 1,333,700	\$ 1,703,177	17.5%
Total Non-Labor	785,697	758,000	655,948	2,498,500	229.6%
<b>Operating Total</b>	<b>\$ 2,414,249</b>	<b>\$ 2,207,807</b>	<b>\$ 1,989,648</b>	<b>\$ 4,201,677</b>	<b>90.3%</b>
Allocated Benefits Expenditures	893,271	988,521	988,521	1,154,262	16.8%
<b>Total Direct Water Costs</b>	<b>\$ 3,307,520</b>	<b>\$ 3,196,328</b>	<b>\$ 2,978,169</b>	<b>\$ 5,355,939</b>	<b>67.6%</b>
Allocation of Administrative Services	4,010,716	4,137,834	4,137,834	4,418,470	6.8%
<b>Total Services Budget</b>	<b>\$ 7,318,237</b>	<b>\$ 7,334,162</b>	<b>\$ 7,116,004</b>	<b>\$ 9,774,409</b>	<b>33.3%</b>

\* Total Labor does not include District's Benefits.

Table #7 - Water Services, Division Budget to Budget Comparison

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Treatment</b>					
<b>Labor:</b>					
Salaries	\$ -	\$ -	\$ -	\$ 180,473	NA
<b>Non-Labor:</b>					
Contractor Services	-	-	-	80,000	NA
Equipment (Non Capital)	-	-	-	5,000	NA
Materials/Services/Supplies	-	-	-	158,000	NA
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	50,000	NA
Utilities **	-	-	-	1,327,000	NA
<b>Total Non-Labor</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,620,000</b>	<b>NA</b>
<b>Division Operating Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,800,473</b>	<b>NA</b>

\*\*Utility cost increase driven by actual cost levels.

<b>Production &amp; Distribution</b>					
Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Labor:</b>					
Salaries	\$ 827,534	\$ 679,375	\$ 709,800	\$ 633,161	-6.8%
<b>Non-Labor:</b>					
Contractor Services	47,405	51,000	91,000	111,500	118.6%
Equipment (Non Capital)	10,914	14,000	12,000	20,000	42.9%
Materials/Services/Supplies	249,025	238,000	213,549	218,000	-8.4%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	60,671	80,000	70,000	70,000	-12.5%
Utilities **	64,891	75,000	76,329	120,000	60.0%
<b>Total Non-Labor</b>	<b>\$ 432,905</b>	<b>\$ 458,000</b>	<b>\$ 462,878</b>	<b>\$ 539,500</b>	<b>17.8%</b>
<b>Division Operating Total</b>	<b>\$ 1,260,439</b>	<b>\$ 1,137,375</b>	<b>\$ 1,172,678</b>	<b>\$ 1,172,661</b>	<b>3.1%</b>

\*\*Utility cost increase driven by actual cost levels.

Table #7 - Water Services, Division Budget to Budget Comparison, cont.

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Pipeline Maintenance &amp; Construction</b>					
<b>Labor:</b>					
Salaries	\$ 368,901	\$ 380,361	\$ 288,500	\$ 457,939	20.4%
<b>Non-Labor:</b>					
Contractor Services	129,902	36,000	30,000	30,000	-16.7%
Equipment (Non Capital)	2,792	10,000	8,209	10,000	0.0%
Materials/Services/Supplies	33,938	33,000	19,647	98,000	197.0%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 166,632</b>	<b>\$ 79,000</b>	<b>\$ 57,856</b>	<b>\$ 138,000</b>	<b>74.7%</b>
<b>Division Operating Total</b>	<b>\$ 535,533</b>	<b>\$ 459,361</b>	<b>\$ 346,356</b>	<b>\$ 595,939</b>	<b>29.7%</b>

\*\*Utility cost increase driven by actual cost levels.

<b>System Services</b>					
<b>Labor:</b>					
Salaries	\$ 432,117	\$ 390,071	\$ 335,400	\$ 431,604	10.6%
<b>Non-Labor:</b>					
Contractor Services	46,666	76,000	47,120	76,000	0.0%
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	139,494	145,000	88,094	125,000	-13.8%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	-	-	-	-	NA
<b>Total Non-Labor</b>	<b>\$ 186,160</b>	<b>\$ 221,000</b>	<b>\$ 135,214</b>	<b>\$ 201,000</b>	<b>-9.0%</b>
<b>Division Operating Total</b>	<b>\$ 618,277</b>	<b>\$ 611,071</b>	<b>\$ 470,614</b>	<b>\$ 632,604</b>	<b>3.5%</b>

\*\*Utility cost increase driven by actual cost levels.

### Fiscal Year 2020-21 Accomplishments

- Exchanged 550 meters and 262 back flow devices; Repaired 10 water main leaks and 11 water main breaks; Replaced 49 valves as of May 1
- Replaced/upgraded flow control facilities the UV Treatment Plant
- Upgraded several SCADA sites to improve communication
- Added solar power to key facilities to maintain SCADA communication during SDG&E PSPS events.
- Implemented the CMMS preventative maintenance work order system at the UV Treatment Plant and the potable distribution system.
- Transitioned service request data collection, for water quality and pressure issues, from excel to CMMS
- Successfully performed numerous planned shutdowns in support of the Santa Margarita project

**Fiscal Year 2021-22 Goals and Objectives**

- Continue field offices upgrades
- Replace 100 water main valves
- Complete the meter exchange program
- Begin meter testing program
- Demo dilapidated tank at Lange Reservoir
- Begin Right of Way maintenance program
- Upgrade the SCADA system to improve communication between critical sites.
- Upgraded pressure/flow control facilities to increase reliability and better track flow rates and water loss.
- Develop advanced reporting/dashboards in CMMS
- Install solar at key SCADA communication sites to maintain communication during SDG&E PSPS events
- Maintain operation of SMGTP to deliver all available supplies
- Optimize operation of SMGTP

**Key Performance Indicators**

- Maintain 3,000 feet of right of ways/year; in FY 2021 maintained 1,608 feet of right of ways as of May 1
- Test 400 meters/year; FY 2022 will be our first year of testing, this metric will increase to AWWA testing recommendations as the program is finalized
- Replace 100 water main valves/year; in FY 2021 replaced 49 as of May 1 (backflow exchanges took precedence)
- Replace 1,476 meters/year; in FY 2021 replaced 550 meters as of May 1 (the meter replacement program is scheduled for completion in FY 2021. Staff will be extremely close to meeting this goal.
- 100% regulatory compliance for water quality sampling, in FY 2021 we are at 100% compliance
- Exercise 189 valves/month as part of the valve exercise program, in FY 2021 we are at an average of 159 valves/month
- Complete all preventative maintenances work orders on time, in FY 2021 we are at 100%

**Water Supply Costs**

The District’s Water Supply Costs are comprised of Purchased Water Costs and pumping costs. The District’s Purchased Water Costs are comprised of the of wholesale water costs from SDCWA and water delivery costs from Camp Pendleton. This is the first Budget that shows payment to Camp Pendleton for pumping the District’s Santa Margarita water to the District’s service area. This fiscal year Camp Pendleton will pump an estimated 3,011 AF 7 miles from the Santa Margarita River Aquifer to the SMGTP. Water Supply Costs are broken down into fixed and variable costs. Variable or Commodity costs vary depending on the amount of water purchased (this includes pumping costs). Fixed charges are set regardless of the water consumed during the billing period. The fixed water costs are comprised of the SDCWA’s charges and MWD fixed charges that are pass through by SDCWA. SDCWA’s recommended rates and charges are used for the cost of water estimate. The reduction in the Variable Water Cost is due to the reduced water purchases from SDCWA now that the District produces its own treated drinking water. The District’s variable and fixed water charges are summarized on the following page:

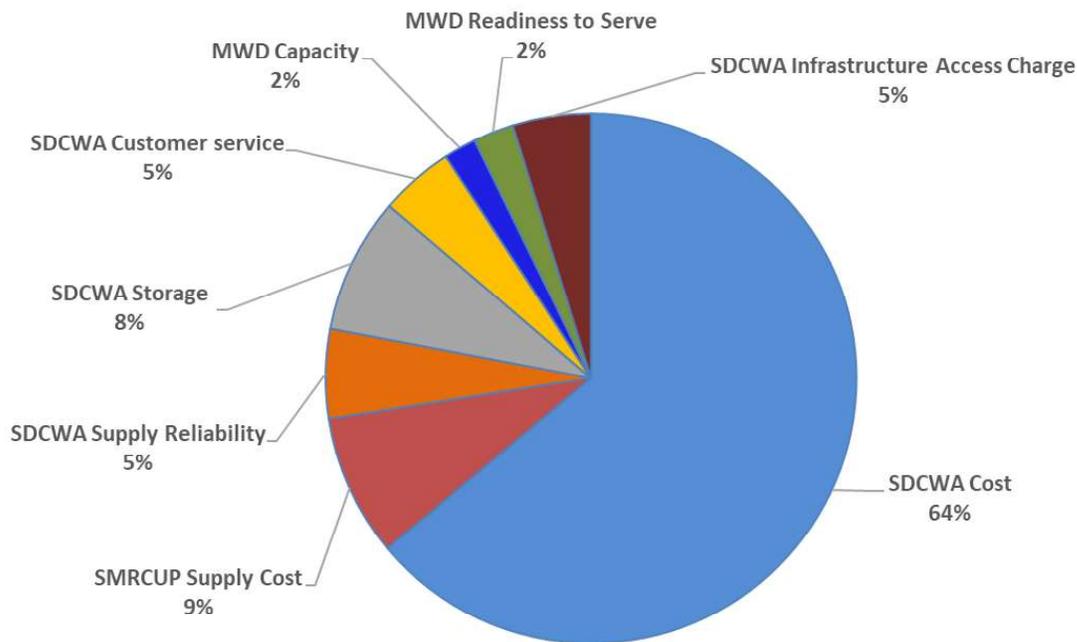
**LOCAL WATER SUPPLY**

Local water supplies will reduce SDCWA water purchases by 3,011 AF or **\$3.8 million this year.**

Table #8 - Variable and Fixed Charges Budget to Budget Comparison

	FY 2019-20 Actual	FY 2020-21		FY 2021-22 Budget	Budget to Budget Change (%)
		Budget	Projected		
<b>Variable Costs:</b>					
SDCWA Cost	\$ 9,333,972	\$ 10,587,871	\$ 10,565,074	\$ 8,286,708	-21.7%
SMRCUP Supply Cost	-	-	-	1,117,081	N/A
<b>Fixed Costs:</b>					
SDCWA Supply Reliability	\$ 593,131	\$ 690,036	\$ 668,808	\$ 706,936	2.4%
SDCWA Storage	1,110,084	1,066,398	1,066,398	1,072,222	0.5%
SDCWA Customer service	585,936	570,306	570,306	585,938	2.7%
MWD Capacity	254,981	244,872	244,872	257,557	5.2%
MWD Readiness to Serve	310,434	291,012	291,012	320,113	10.0%
SDCWA IAC	474,468	562,410	562,410	618,260	9.9%
<b>Total Cost of Water</b>	<b>\$ 12,663,006</b>	<b>\$ 14,012,905</b>	<b>\$ 13,968,880</b>	<b>\$ 12,964,814</b>	<b>-7.5%</b>

Chart #2 - Water Supply Costs Breakdown



**Fixed Costs**

**Supply Reliability Charge** - SDCWA charge to collect a portion of the costs associated with highly reliability water supplies (i.e. Desalination).

**Infrastructure Access Charge (IAC)** – Meter charge imposed by SDCWA to provide water capacity.

**Customer Service Charge** – SDCWA charge designed to recover costs associated with SDCWA’s customer service and functions.

**Emergency Storage Charge**– SDCWA charge to recover costs associated with the Emergency Storage Program.

**MWD Capacity Charge**– MWD charge passed-through by the SDCWA. The MWD charge collects costs associated with demand peak.

**MWD Readiness-to-Serve Charge** – MWD charge for State Water Project costs passed through by the SDCWA.

Fixed Costs are **30%** of the Total Cost of Water Purchased from SDCWA

**Variable Costs**

**Melded Supply** – This is the \$/acre-foot rate the District pays for water.

**Melded Treatment** - This is the \$/acre-foot rate the District pays for water that is potable. The District only purchases treated water.

**Transportation** - This is the \$/acre-foot rate the District pays for water transported by the SDCWA.

**Special Agricultural Water Rate (SAWR)** - This is the \$/acre-foot rate the District pays for water that is in the SAWR program.

Variable Costs are **70%** of the Total Cost of Water Purchased from SDCWA

**Wastewater Services**

The District provides Wastewater Services to approximately 5,000 meters within the District’s service area. The largest component of the Wastewater Services’ operating budget is the operating costs of the District’s water reclamation plant. Wastewater Services includes the following functions:

- Operate a water reclamation plant that provides secondary treatment
- Manage an asset management program that optimizes lifecycle costs and maintains, repairs and replace plant and collections system assets
- Meet the Regional Water Quality Control Board’s discharge permit requirements
- Operate and maintain the District’s six collections system lift station and 100 miles of wastewater system piping

Wastewater Services is broken down into divisions that support a specific functions. Wastewater Services historic and proposed staffing levels are shown in Table 9.

Table #9 - Wastewater Services Approved Positions

Position	Actual FTE	Actual FTE	Proposed FTE
	FY 2019-20	FY 2020-21	FY 2021-22
Collections Supervisor	1.0	1.0	1.0
Utility Technician	2.0	2.0	2.0
Utility Worker I & II	5.0	5.0	5.0
Chief Plant Operator	0.85	0.85	0.85
Lead Plant Operator	1.7	1.7	1.7
Plant Operator	1.7	1.7	1.7
Operations Manager	-	-	0.25
Environmental Compliance Technician	0.5	0.5	0.5
Laboratory Technician	0.85	0.85	0.85
Mechanical Technician	0.8	0.8	-
Senior Maintenance Technician	-	-	0.6
Plant Maintenance Worker	0.8	0.8	-
Maintenance Technician I/II	-	-	0.6
SCADA/Electrical/Maintenance Supervisor	-	-	0.25
Instrumentation, Electrical & Controls Tech	-	-	0.5
<b>TOTAL FTE</b>	<b>15.2</b>	<b>15.2</b>	<b>15.8</b>

\*FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**Collections**

- Provide emergency repairs and routine maintenance to the collections system
- Manage the District’s collection system inspection program that includes TV inspection of the collections system
- Maintain and operate a vactor truck
- Maintain lift stations, clean outs, system ocean outfall
- Provide light and heavy construction services

**Treatment**

- Operate and maintain the Water Reclamation Plant processes in the following areas: Headworks, Primary Sedimentation, Activated Sludge, Secondary Sedimentation and Solids Handling (which includes an aerobic digester and centrifuges)
- Conducts laboratory analysis and reporting to meet the Regional Water Quality Control Board’s discharge permit requirements

Table #10 - Wastewater Services Operating Budget Summary

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 1,198,408	\$ 1,257,231	\$ 1,282,800	\$ 1,275,294	1.4%
Total Non-Labor	1,014,152	1,136,900	1,065,801	1,331,900	17.2%
<b>Operating Total</b>	<b>\$ 2,212,560</b>	<b>\$ 2,394,131</b>	<b>\$ 2,348,601</b>	<b>\$2,607,194</b>	<b>8.9%</b>
Allocated Benefits Expenditures	657,335	857,217	857,217	864,281	0.8%
<b>Total Direct Wastewater Costs</b>	<b>\$ 2,869,895</b>	<b>\$ 3,251,349</b>	<b>\$ 3,205,818</b>	<b>\$ 3,471,475</b>	<b>6.8%</b>
Allocation of Administrative Services	2,193,361	2,262,878	2,262,878	2,416,351	6.8%
<b>Total Services Budget</b>	<b>\$ 5,063,255</b>	<b>\$ 5,514,227</b>	<b>\$ 5,468,696</b>	<b>\$5,887,826</b>	<b>6.8%</b>

\* Total Labor does not include District's Benefits.

Table #11 - Wastewater Services, Division Budget to Budget Comparison

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Collections</b>					
<b>Labor:</b>					
Salaries	\$ 471,065	\$ 429,802	\$ 521,400	\$ 450,525	4.8%
<b>Non-Labor:</b>					
Contractor Services	30,488	43,000	35,000	56,000	30.2%
Equipment (Non Capital)	2,566	5,000	5,000	5,000	0.0%
Materials/Services/Supplies	62,602	125,000	85,055	124,000	-0.8%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	363	900	-	900	0.0%
Utilities **	113,320	120,000	59,911	100,000	-16.7%
<b>Total Non-Labor</b>	<b>\$ 209,338</b>	<b>\$ 293,900</b>	<b>\$ 184,966</b>	<b>\$ 285,900</b>	<b>-2.7%</b>
<b>Division Operating Total</b>	<b>\$ 680,403</b>	<b>\$ 723,702</b>	<b>\$ 706,366</b>	<b>\$ 736,425</b>	<b>1.8%</b>

<b>Treatment</b>					
<b>Labor:</b>					
Salaries	\$ 727,343	\$ 827,430	\$ 761,400	\$ 824,770	-0.3%
<b>Non-Labor Expenses:</b>					
Contractor Services	259,898	213,500	283,360	433,000	102.8%
Equipment (Non Capital)	6,000	9,000	7,345	9,000	0.0%
Materials/Services/Supplies	278,084	310,500	265,964	312,000	0.5%
Professional Services	35,000	-	-	-	NA
Memberships/Training/Permits	62,981	95,000	80,000	95,000	0.0%
Utilities **	162,851	215,000	244,165	197,000	-8.4%
<b>Total Non-Labor</b>	<b>\$ 804,814</b>	<b>\$ 843,000</b>	<b>\$ 880,834</b>	<b>\$ 1,046,000</b>	<b>24.1%</b>
<b>Division Operating Total</b>	<b>\$ 1,532,157</b>	<b>\$ 1,670,430</b>	<b>\$ 1,642,234</b>	<b>\$ 1,870,770</b>	<b>12.0%</b>

\*\*Utility cost increase driven by actual cost levels.

**Fiscal Year 2020-21 Accomplishments**

- Water Reclamation Plant stayed in compliance with state and federal regulations, including the new NPDES permit R9-2019-0169
- Maintained equipment from the headwork’s to the secondary, including solids handling equipment
- The plant reduced its overall power consumption by 1.6%. The plant reduced chlorine usage by 28%

**Fiscal Year 2021-22 Goals and Objectives**

- Operate Water Reclamation Plant treatment units to stay in compliance with state and federal regulations
- Maintain Water Reclamation Plant equipment from the headwork’s to secondary, including solids handling equipment using preventative and predictive measures
- Maintain energy consumption +/- 5%
- Maintain chlorine usage +/- 5%

**Key Performance Indicators**

- Maintain energy usage (kWh) at +/- 5% of target annual average of 2,760,000
- Reduce 10-year average wastewater spills by 10% - Keep spills under 9,075 gallons; in FY 2021 kept spills at 7,451 gallons
- Keep common sewer spills to 3 or less during the year; in FY 2021 we had 4 spills

**Recycled Water Services**

The District provides Recycled Water Services to 30 meters within the District’s service area. The largest component of the Recycled Water Services’ operating budget is the operating costs of the District’s water reclamation plant. Recycled Water Services includes the following functions:

- Operate the Water Reclamation Plant, equipment and processes necessary to produce recycled water
- Liaise with recycled water customers to schedule deliveries and inspections of service connections
- Operate and maintain the District’s distribution system, which includes 10.5 miles of pipe and 14 customers in the Fallbrook service area

Recycled Water Services is broken down into Divisions that support a specific function. Recycled Water Services historic and proposed staffing levels are shown in Table 12.

Table #12 - Recycled Water Services Approved Positions

Position	Actual FTE	Actual FTE	Proposed FTE
	FY 2019-20	FY 2020-21	FY 2021-22
Chief Plant Operator	0.15	0.15	0.15
Lead Plant Operator	0.3	0.3	0.3
Plant Operator	0.3	0.3	0.3
Environmental Compliance Technician	0.5	0.5	0.5
Laboratory Technician	0.15	0.15	0.15
Mechanical Technician	0.2	0.2	-
Senior Maintenance Technician	-	-	0.2
Plant Maintenance Worker	0.2	0.2	-
Maintenance Technician I/II	-	-	0.2
Utility Technician	0.25	0.5	0.5
Utility Worker I	0.5	0.5	0.5
Backflow/ Cross Connection Tech	0.25	-	-
<b>TOTAL FTE</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>

\* FTE - Full-Time Equivalents

The divisions and their activities are summarized below.

**Production**

- Operates and maintains the Water Reclamation Plant tertiary processes, such as the filters, chlorine contact basin, recycled water pumps, and recycled water storage/pond
- Laboratory analyses and reporting to meet permit requirements

**Distribution**

- Maintains the Districts Recycled Water Services distribution assets
- Conducts valve and meter maintenance and replacement
- Operates and maintains a SCADA telemetry system
- Conducts site connection and system inspections
- Maintains right-of-way and interconnects with neighboring districts

Table #13 - Recycled Water Services Operating Budget Summary

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
Total Labor *	\$ 119,479	\$ 188,184	\$ 108,400	\$ 181,916	-3.3%
Total Non-Labor	231,452	228,000	210,648	222,000	-2.6%
<b>Operating Total</b>	<b>\$ 350,931</b>	<b>\$ 416,184</b>	<b>\$ 319,048</b>	<b>\$ 403,916</b>	<b>-2.9%</b>
Allocated Benefits Expenditures	65,535	128,310	128,310	123,286	-3.9%
<b>Total Direct Recycled Water Costs</b>	<b>\$ 416,467</b>	<b>\$ 544,494</b>	<b>\$ 447,358</b>	<b>\$ 527,202</b>	<b>-3.2%</b>
Allocation of Administrative Services	62,667	64,654	64,654	69,039	6.8%
<b>Total Services Budget</b>	<b>\$ 479,134</b>	<b>\$ 609,148</b>	<b>\$ 512,011</b>	<b>\$ 596,241</b>	<b>-2.1%</b>

\* Total Labor does not include District's Benefits

Table #14 - Recycled Water Services, Division Budget to Budget Comparison

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to Budget Change (%)
	Actual	Budget	Projected	Budget	
<b>Production</b>					
<b>Labor:</b>					
Salaries	\$ 117,388	\$ 150,060	\$ 104,700	\$ 145,595	-3.0%
<b>Non-Labor:</b>					
Contractor Services	25,944	20,000	27,000	34,000	70.0%
Equipment (Non Capital)	3,051	4,000	3,000	4,000	0.0%
Materials/Services/Supplies	116,168	91,000	65,687	77,000	-15.4%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	69,793	95,000	110,000	85,000	-10.5%
<b>Total Non-Labor</b>	<b>\$ 214,956</b>	<b>\$ 210,000</b>	<b>\$ 205,687</b>	<b>\$ 200,000</b>	<b>-4.8%</b>
<b>Division Operating Total</b>	<b>\$ 332,345</b>	<b>\$ 360,060</b>	<b>\$ 310,387</b>	<b>\$ 345,595</b>	<b>-4.0%</b>

\*\*Utility cost increase driven by actual cost levels.

<b>Distribution</b>					
<b>Labor:</b>					
Salaries	\$ 2,091	\$ 38,124	\$ 3,700	\$ 36,321	-4.7%
<b>Non-Labor:</b>					
Contractor Services	-	-	-	-	NA
Equipment (Non Capital)	-	-	-	-	NA
Materials/Services/Supplies	15,968	18,000	4,442	22,000	22.2%
Professional Services	-	-	-	-	NA
Memberships/Training/Permits	-	-	-	-	NA
Utilities **	528	-	518	-	NA
<b>Total Non-Labor</b>	<b>\$ 16,496</b>	<b>\$ 18,000</b>	<b>\$ 4,961</b>	<b>\$ 22,000</b>	<b>22.2%</b>
<b>Division Operating Total</b>	<b>\$ 18,587</b>	<b>\$ 56,124</b>	<b>\$ 8,661</b>	<b>\$ 58,321</b>	<b>3.9%</b>

\*\*Utility cost increase driven by actual cost levels.

**Fiscal Year 2020-21 Accomplishments**

- Operated the Water Reclamation Plant tertiary treatment units while staying in compliance with applicable recycled water permits: Order No. 91-39, Title 22, State Recycled Water Permits and Policy
- Provided reliable recycled water production by maintaining the Water Reclamation Plant tertiary equipment from the filters to the reclaimed water pond, using preventative and predictive measures.
- Maintained an overall compliance of > 99.9% each month from all samples associated with the Title 22 and WDR Permit

**Fiscal Year 2021-22 Goals and Objectives**

- Operate the Water Reclamation Plant tertiary treatment units while staying in compliance with the applicable recycled water permits: Order No. 91-39, Title 22, State Recycled Water Permits and Policy
- Maintain the Water Reclamation Plant tertiary equipment from the filters to the reclaimed water pond, using preventative and predictive measures, to reliably produce recycled water

**Key Performance Indicators**

- Maintain an overall compliance of > 99.9% each month from all samples associated with the Title 22 and WDR Permit

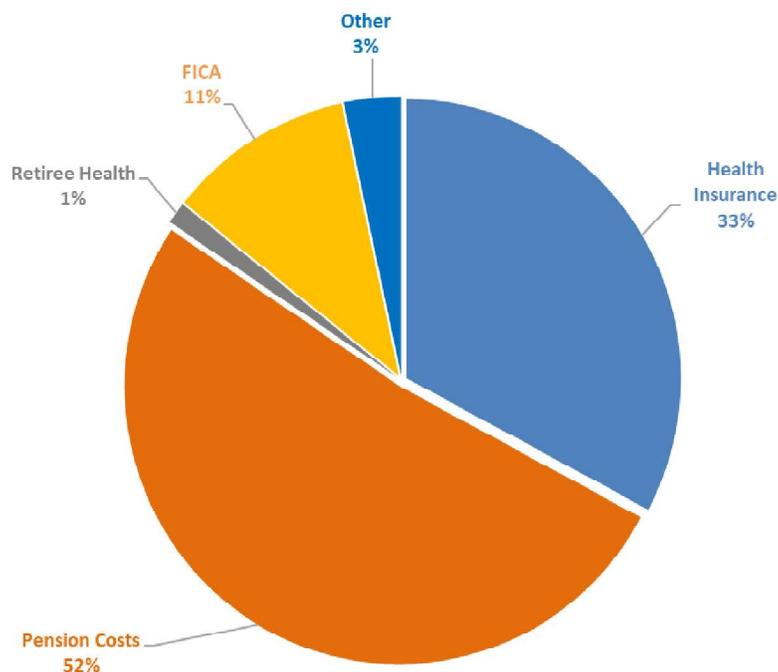


UV Plant

## Employee Benefits

The District updates the cost of the benefits offered to District staff as part of the annual budget. The current Memorandum of Understanding (MOU) between the District and its employee association is set to expire in July 2022, the budget was developed based upon the terms of the current MOU. Table 15 shows the breakdown of the District's costs related to employee benefits. These cost estimates include expected increases in costs due mainly to increased health benefit rates and 2 additional FTE's required to operate the new SMGTP.

Chart #3 - Fiscal Year 2021-22 Benefits Breakdown



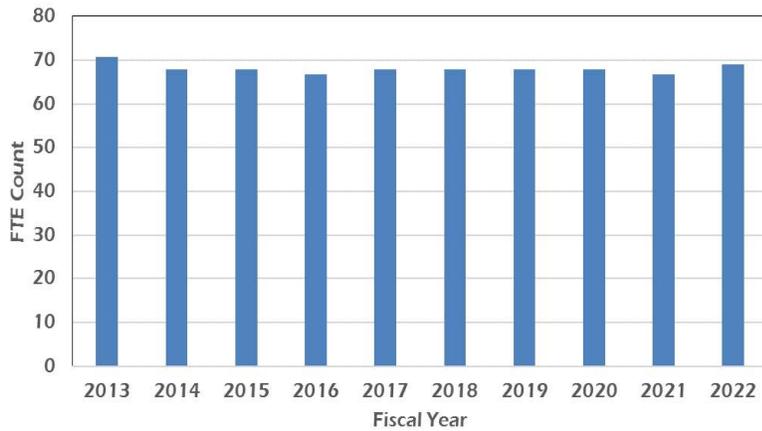
### Strategic Planning

The District's proactive management of the district's pension obligations has resulted in approximately 84% funding of its pension obligations. This limits the potential for future rate and charge increases due to pension obligation funding needs.

Table #15 - Breakdown of District's Employee Benefit Costs

Description	FY 2019-20	FY 2020-21		FY 2021-22	Budget to
	Actual	Budget	Projected	Budget	Budget Change (%)
Auto Allowance	\$ 14,211	\$ 14,500	\$ 14,500	\$ 14,500	0.0%
Insurance - Dental	61,471	73,856	70,000	76,000	2.9%
Insurance - Vision	12,305	14,394	13,000	14,606	1.5%
Insurance - Health	858,051	1,000,135	972,792	1,151,301	15.1%
Insurance - Life and Disability	44,626	51,714	51,714	46,779	-9.5%
Insurance - Worker's Comp	140,741	157,403	157,403	152,881	-2.9%
Longevity Bonus	25,169	36,448	30,000	26,921	-26.1%
FICA - Employer's share	440,803	462,225	450,000	480,601	4.0%
CalPERS Annual Contribution	532,223	652,605	620,000	652,526	0.0%
CalPERS Unfunded Liability Payment	881,796	965,469	965,469	1,112,995	15.3%
Pension/OPEB Liability Trust Payment	500,000	500,000	500,000	500,000	0.0%
Employer's share (401 & 457)	47,917	51,467	51,467	54,187	5.3%
District Share of Retiree Medical Insurance	42,356	57,615	57,615	55,300	-4.0%
Retiree Compensated Absence Payout	16,841	20,000	20,000	20,000	0.0%
Uniforms & Boots	37,706	31,460	49,803	31,851	1.2%
<b>Total</b>	<b>\$ 3,656,216</b>	<b>\$ 4,089,292</b>	<b>\$ 4,023,763</b>	<b>\$ 4,390,448</b>	<b>7.4%</b>

**Chart #4 - Fallbrook Public Utility District's Approved Full-Time Staffing Equivalent**



The District's staffing levels shown in Chart 4 in order to operate the new SMGTP reflect the increase of 2.2 FTE's. The District participates in the California Public Employees' Retirement System (CalPERS). Recent changes to CalPERS accounting practices have caused pension costs for participating agencies to increase. The District's pension cost budget incorporates the costs determined by CalPERS for the next fiscal year. The recent change to the discount rate

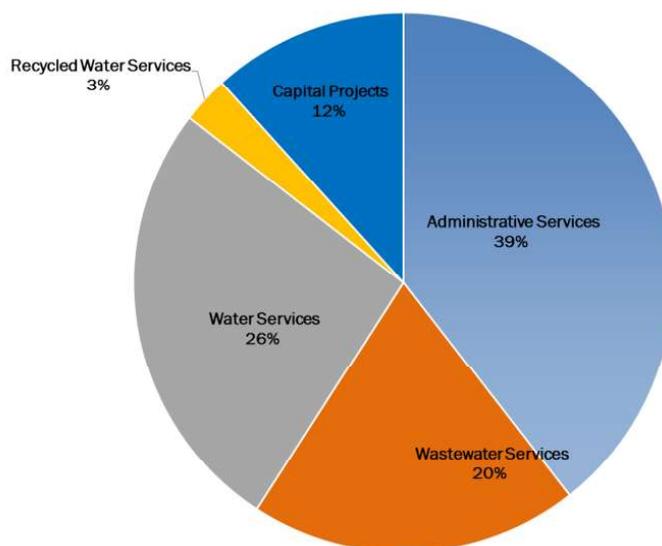
used to calculate the current cost of the pension benefits already earned by staff are driving up the Unfunded Liability Payment as seen by the 15.3% increase in this cost. The District has maintained its contribution to the Pension/OPEB Liability 115 Trust as part of the Board's strategy to mitigate the impacts of changing pension costs. Appendix D provides the District's CalPERS annual payment schedule for the Unfunded Actuarial Accrued Liability (UAAL).

The District's healthcare insurance costs are budgeted to increase by 11.1% driven by a change in the healthcare coverage elections made by both new hires and 2 additional FTE's. The District's healthcare insurance premium increases were in line with inflation. Changes to other benefits are shown on the table.

**Benefit Allocation**

The District's benefit costs are allocated to each of the District's Services based upon its share of the budgeted salary and wages. This allocation methodology aligns the benefit cost allocation with salary and wages, which are the primary determinants of the benefit costs. A portion of the Benefits cost is allocated to labor associated with Capital Projects and is integrated into the projects budget. This year the portion of benefits allocated to Capital Projects is 12%, an increase of 1% from last year.

**Chart#5 - Fiscal Year 2021-22 Benefits Allocation**



## Debt Service

The District currently has four outstanding long-term debt obligations, the Red Mountain State Revolving Fund Loan (2011 SRF Loan), the 2021 Wastewater Refunding Revenue Bonds (2021 WWRRB), the Qualified Energy Conservation Revenue Bonds (2010 QECB) and the State Revolving Fund Loans (2018 SRF Loan). The 2011 SRF Loan funded the construction of a water treatment facility serving the Red Mountain Reservoir. The 2021 Wastewater Refunding Revenue Bonds (2021 WWRRB), which refunded a SRF Loan that funded the rehabilitation and modernization of the District's Water Reclamation Plant. The 2010 QECB loan funded the District's 1 MW solar facility. The 2018 SRF loan funded the District's SMGTP. While the District has requested an increase in the loan amount, the original debt service is shown here since the requested modification to the agreement has not yet been approved.

The District successfully executed a public debt offering. With a rating from Standard and Poor's of A+, the District debt was well received by investors and highlights the recent improvements to the District's financial disclosure.

Each debt issuance is linked to the Service that it was used to fund. In some cases, the debt service can be allocated to more than one service. The table below shows the debt service payments for Fiscal Year 2021-22 and the amount allocated to each service.

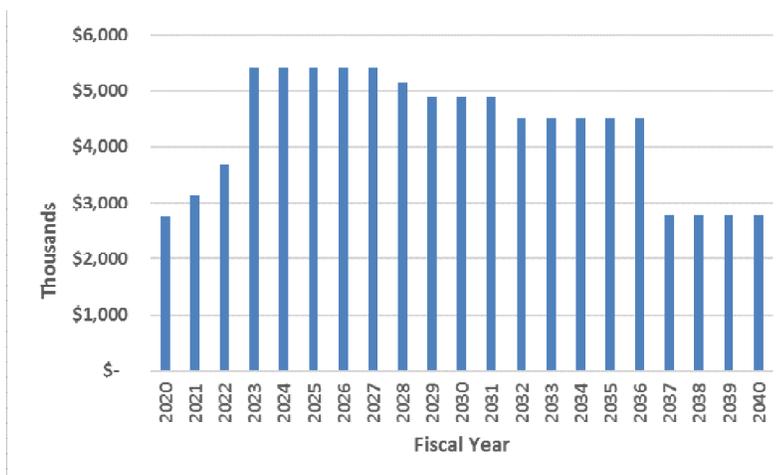
**Table #16 - Debt Service Budget Summary**

Debt Issuance	Service			Total Debt Service
	Water	Wastewater	Recycled Water	
2018 SRF Loan*	\$ 1,038,424	\$ -	\$ -	\$ 1,038,424
2011 SRF Loan	395,851	-	-	395,851
2021 WWRRB**	-	1,210,919	518,965	1,729,884
2010 QECB	-	521,312	-	521,312
<b>Total</b>	<b>\$ 1,434,275</b>	<b>\$ 1,732,231</b>	<b>\$ 518,965</b>	<b>\$ 3,685,471</b>

\* During the construction period the District pays interest on the funds received from the State at the loan interest rate of 1.9%.

\*\* 70% is allocated to wastewater and 30% of the debt service is allocated to recycled water.

**Chart #6 - Annual Debt Service**



The table below shows the debt service payment schedule for each debt issuance. The debt service in Fiscal Year 2022-23 increases significantly because full debt service payments for the SMRCUP loan begin.

The District expects to make an interest payment on the 2018 SRF Loan this budget period. The Full debt service for the 2018 SRF Loan is expected to begin in Fiscal Year 2022-23 and is shown in the summary table. The financial projections in this document include this debt service starting in Fiscal Year 2022-23.

**Table #17 - Fiscal Year 2021-22 Debt Service Schedule**

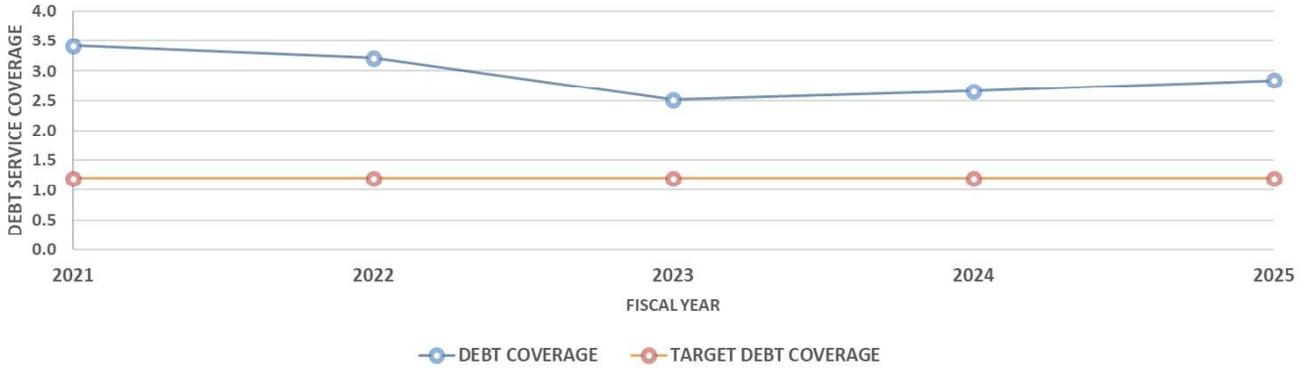
Year Ending June 30	Red Mountain State Revolving Fund Loan		Wastewater Revenue Refunding Bonds		QECCB* Loan		SMRCUP State Revolving Funds**		District Annual Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
	2021	300,807	95,044	-	58,700	345,316	175,326	-	
2022	308,589	87,261	1,110,000	619,884	366,104	155,208	-	1,038,424	\$3,685,471
2023	316,573	79,277	1,115,000	616,022	387,783	133,884	1,584,121	1,187,095	\$5,419,755
2024	324,764	71,087	1,120,000	610,746	410,388	111,302	1,605,532	1,165,684	\$5,419,501
2025	333,166	62,685	1,130,000	603,575	433,953	87,409	1,636,037	1,135,178	\$5,422,003
2026	341,786	54,065	1,145,000	584,934	458,515	62,150	1,667,122	1,104,094	\$5,417,665
2027	350,628	45,222	1,185,000	546,700	484,114	35,465	1,698,797	1,072,418	\$5,418,345
2028	359,700	36,151	1,230,000	498,400	254,219	7,296	1,731,074	1,040,141	\$5,156,981
2029	369,006	26,844	1,280,000	448,200	-	-	1,763,965	1,007,251	\$4,895,266
2030	378,553	17,297	1,335,000	395,900	-	-	1,797,480	973,736	\$4,897,966
2031	388,347	7,503	1,390,000	341,400	-	-	1,831,632	939,583	\$4,898,466
2032	-	-	1,445,000	284,700	-	-	1,866,433	904,782	\$4,500,916
2033	-	-	1,505,000	225,700	-	-	1,901,895	869,320	\$4,501,916
2034	-	-	1,565,000	164,300	-	-	1,938,031	833,184	\$4,500,516
2035	-	-	1,630,000	100,400	-	-	1,974,854	796,362	\$4,501,616
2036	-	-	1,695,000	33,900	-	-	2,012,376	758,839	\$4,500,116
2037	-	-	-	-	-	-	2,050,611	720,604	\$2,771,216
2038	-	-	-	-	-	-	2,089,573	681,643	\$2,771,216
2039	-	-	-	-	-	-	2,129,275	641,941	\$2,771,216
2040	-	-	-	-	-	-	2,169,731	601,484	\$2,771,216
2041	-	-	-	-	-	-	2,210,956	560,260	\$2,771,216
2042	-	-	-	-	-	-	2,252,964	518,251	\$2,771,216
2043	-	-	-	-	-	-	2,295,770	475,445	\$2,771,216
2044	-	-	-	-	-	-	2,339,390	431,825	\$2,771,216
2045	-	-	-	-	-	-	2,383,839	387,377	\$2,771,216
2046	-	-	-	-	-	-	2,429,131	342,084	\$2,771,216
2047	-	-	-	-	-	-	2,475,285	295,931	\$2,771,216
2048	-	-	-	-	-	-	2,522,315	248,900	\$2,771,216
2049	-	-	-	-	-	-	2,570,239	200,976	\$2,771,216
2050	-	-	-	-	-	-	2,619,074	152,142	\$2,771,216
2051	-	-	-	-	-	-	2,668,836	102,379	\$2,771,216
2052	-	-	-	-	-	-	2,719,544	51,671	\$2,771,216

\*Qualified Energy Conservation Revenue Bonds. Debt service is not adjusted for interest rate subsidy payments.

\*\*Debt service based upon approved loan amount and interest rate. Actual debt service will be calculated once the Santa Margarita Conjunction Use Project is completed.

While there is no established legal debt limit for the District, the District has an adopted Debt Management Policy. The Debt Management Policy creates the framework for issuing debt. The District's debt service indentures require that the debt service coverage ratio be maintained at or above 1.2x. **Chart 7** shows the projected debt service coverage above the target level of 1.2x. Currently the District has no subordinate debt outstanding.

**Chart #7 - Debt Service Coverage Ratio**



Santa Margarita River

## Project Summary for Fiscal Year 2021-22

---

### District Capital Program

Utility districts require long-term investments in extensive capital facilities. The District maintains over 370 miles of buried water and sewer pipe that must be maintained and replaced. The District also has pump stations, lift stations and treatment facilities that require significant expenses to replace and maintain. Figure 1 summarizes the facilities owned and operated by the District. It is critical to develop plans to reduce the overall cost of operating these facilities by completing pro-active capital projects to replace and rehabilitate these assets versus waiting for system failures. A well-planned Capital Program is critical to the long-term stability of the District.

The annual Capital Improvement Budget is used to implement the District's long-range capital goals. These goals are developed using the District's Strategic Plan, Urban Water Management Plan, Asset Management Plan and Master Plans. These plans are utilized to develop the lowest lifecycle cost to meet water and wastewater needs and maintain system reliability for the District's customers. Projects are selected based on weighing prioritized needs versus available capital funds. Individual project costs are estimated based on current construction cost information. While some projects are well into the design phase and costs can be fairly accurately estimated, others are based on early stage planning estimates. Additionally, unforeseen changes to priorities can result from changing materials and construction costs, pipeline failures, extreme weather, etc.

For Fiscal Year 2020-21, Table #1 shows budget vs projected actual expenses for each capital project category. Water Capital expenses were under budget due to delayed implementation of the pipeline replacement plans described in more detail below. Recycled Water Capital expenses were also under budget as a result of delays in the state grant process which slowed the implementation of the water supply reliability feasibility project. Wastewater Capital Expenses for the year were over budget, primarily due to the timing of the Overland Trail Lift Station (OTLS) Rehabilitation Project. This project was planned over multiple fiscal years, and more work was completed in the past year than originally planned. Finally, administrative capital expenses were close to the planned budget, except for the fleet and equipment purchases. The purchase of two fleet trucks and the crane were delayed due to supply chain constraints, pushing their delivery into the coming fiscal year. This is explained further in the detailed Vehicles and Heavy Equipment section.

### Capital Project Summary for Fiscal Year 2021-22

The District has implemented a capital program to improve the overall reliability of the water, wastewater and recycled systems. The most significant component of the capital program is replacement of aging infrastructure. In addition to rehabilitation, the ongoing construction of the \$70.3 million SMRCUP will be the most significant single project for the next 15-20 years and will provide a long-term cost effective local water supply. The key capital projects scheduled for Fiscal Year 2021-22 are summarized on the following pages.

## Water Capital Projects

District construction staff will continue with valve replacement projects to reduce outage impacts of breaks and failures. The District implemented an escalating capital improvement charge to ensure the District is meeting pipeline infrastructure replacement needs. In Fiscal Year 2020-2021, the pipeline replacement goals were not met due to limitations on staff time caused by the construction of the SMRCUP as well as alignment complications on one of the planned projects. In an effort to catch up with the replacement goal, additional pipeline replacement efforts are planned for the coming year. The major pipeline projects for Fiscal Year 2021-22 include:

- Completion of the first phase of the Gum Tree Pipeline Replacement Project started in Fiscal Year 20-21. The project consists of the replacement of approximately 1,400 linear feet of 20-inch water main.
- Construct phases two and three of the Winter Haven Road Pipeline Replacement Project, approximately 5,580 linear feet of 120-inch water main.
- Construct the Knoll Park Pipeline replacement project, approximately 1,350 linear feet of 24-inch water main and 700 linear feet of 8-inch water main.

The SMRCUP project is currently under construction, approximately 75 percent complete, and scheduled to begin operating in the second quarter of FY2021-22.

## Wastewater/ Recycled Capital Projects

As part of the long-term sewer system replacement plan, the focus will be on rehabilitating deteriorating manholes and replacement of the Green Canyon Force Main, as well as the Hawthorn Lift Station.

At the Water Reclamation Plant (WRP), the second phase of the conveyor controls replacement will be implemented, as well as the replacement of aging mechanical equipment.

For the recycled water system, a portion of the distribution system that has experienced multiple breaks will be replaced. Additional Remote pressure monitoring capabilities will be added in strategic locations. The biggest recycled system project is the continuation of the water supply reliability project currently underway. The Integrated Regional Water Management Proposition 1 Grant that funds 50 percent of that project was formally approved by the State Department of Water Resources in April of 2021.



Table #1 - Capital Improvements Projects Summary Table

	FY 2020-21	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Budget	Projected						
<b>Water Capital Projects</b>								
Pipelines & Valve Replacement Projects by District	\$ 670,000	\$ 730,000	\$ 670,000	\$ 593,144	\$ 704,177	\$ 605,066	\$ 611,117	\$ 617,228
Pipeline Replacement Projects by Contractors	1,298,000	400,000	3,388,000	3,561,988	3,047,404	3,306,635	3,216,406	3,294,500
Deluz ID Projects	80,000	65,000	100,000	104,060	105,101	106,152	107,214	109,572
Pump Stations	233,750	30,000	412,500	52,030	178,672	53,076	53,607	54,786
Meter Replacement	675,000	660,000	275,000	52,030	21,020	21,230	21,443	21,914
Pressure Reducing Stations	20,000	15,000	-	93,654	21,020	21,230	-	21,697
Red Mountain Reservoir Improvements	40,000	25,000	112,000	364,211	52,551	95,537	53,607	54,786
Steel Reservoir Improvements	669,000	700,000	180,000	10,406	10,510	849,216	696,888	712,220
Treatment Plant R&R	-	-	-	208,121	210,202	212,304	214,427	219,144
SCADA Upgrades/ Security/Telemetry	130,000	60,000	95,000	93,654	89,336	111,460	112,574	115,051
<b>Total PAYGO Water Capital Projects</b>	<b>\$ 3,815,750</b>	<b>\$ 2,685,000</b>	<b>\$ 5,232,500</b>	<b>\$ 5,133,300</b>	<b>\$ 4,439,992</b>	<b>\$ 5,381,907</b>	<b>\$ 5,087,282</b>	<b>\$ 5,220,900</b>
Santa Margarita Conjunctive Use Project Construction	\$ 31,900,000	\$ 31,500,000	\$ 11,600,000	-	-	-	-	-
<b>Total Water Capital Projects</b>	<b>\$ 35,715,750</b>	<b>\$ 34,185,000</b>	<b>\$ 16,832,500</b>	<b>\$ 5,133,300</b>	<b>\$ 4,439,992</b>	<b>\$ 5,381,907</b>	<b>\$ 5,087,282</b>	<b>\$ 5,220,900</b>
<b>Recycled Water Capital Projects</b>								
Recycled Water Improvements	\$ 430,000	\$ 180,000	\$ 270,000	\$ 118,629	\$ 119,815	\$ 121,013	\$ 175,830	\$ 179,698
<b>Total Recycled Water Capital Projects</b>	<b>\$ 430,000</b>	<b>\$ 180,000</b>	<b>\$ 270,000</b>	<b>\$ 118,629</b>	<b>\$ 119,815</b>	<b>\$ 121,013</b>	<b>\$ 175,830</b>	<b>\$ 179,698</b>
<b>Wastewater Capital Projects</b>								
WRP Improvements	\$ 245,000	\$ 270,000	\$ 295,000	\$ 253,907	\$ 998,460	\$ 796,140	\$ 428,854	\$ 919,800
Collection System Improvements	1,740,000	2,500,000	595,000	1,571,312	903,869	1,050,905	525,346	1,074,025
Outfall Improvements	50,000	10,000	50,000	52,030	52,551	53,076	268,034	112,420
<b>Total Wastewater Capital Projects</b>	<b>\$ 2,035,000</b>	<b>\$ 2,780,000</b>	<b>\$ 940,000</b>	<b>\$ 1,877,250</b>	<b>\$ 1,954,879</b>	<b>\$ 1,900,121</b>	<b>\$ 1,222,234</b>	<b>\$ 2,106,245</b>
<b>Administrative Capital Projects</b>								
Administrative Upgrades	\$ 30,000	\$ 30,000	\$ 65,000	\$ 26,015	\$ 446,679	\$ 26,538	\$ 26,803	\$ 27,393
Engineering & Operations Information Systems	40,000	20,000	-	31,218	31,530	31,846	32,164	32,872
Facility Improvements/Upgrades/Security	185,000	190,000	120,000	88,451	26,275	26,538	26,803	229,950
District Yard Improvements	120,000	130,000	25,000	-	52,551	53,076	-	54,244
Vehicles and Heavy Equipment	566,000	80,000	655,500	315,823	387,297	497,322	395,082	403,774
<b>Total Administrative Capital Projects</b>	<b>\$ 941,000</b>	<b>\$ 450,000</b>	<b>\$ 865,500</b>	<b>\$ 461,508</b>	<b>\$ 944,333</b>	<b>\$ 635,320</b>	<b>\$ 480,853</b>	<b>\$ 748,232</b>
<b>Total Capital Budget Projects</b>	<b>\$ 7,221,750</b>	<b>\$ 6,095,000</b>	<b>\$ 7,308,000</b>	<b>\$ 7,590,686</b>	<b>\$ 7,459,018</b>	<b>\$ 8,038,361</b>	<b>\$ 6,966,199</b>	<b>\$ 8,255,075</b>
<b>Total all Capital Projects (Including SMRCUP)</b>	<b>\$ 39,121,750</b>	<b>\$ 37,595,000</b>	<b>\$ 18,908,000</b>	<b>\$ 7,590,686</b>	<b>\$ 7,459,018</b>	<b>\$ 8,038,361</b>	<b>\$ 6,966,199</b>	<b>\$ 8,255,075</b>

This page intentionally left blank

