

Fallbrook Public Utility District

Fiscal Year 2025-2026 Adopted Annual Budget



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Fallbrook Public Utility District

990 East Mission Road
Fallbrook, CA 92028
760-728-1125
www.fpud.com



Current Board of Directors:

- District #1 - Dave Baxter
- District #2 - Ken Endter, Vice-President
- District #3 - Jennifer DeMeo
- District #4 - Don McDougal, President
- District #5 - Charley Wolk

District Management:

- General Manager - Jack Bebee
- Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Jodi Brown, Aaron Cook, Annalece Bokma, Devin Casteel, Isabel Casteran, Kevin Collins, Mick Cothran, Noelle Denke, Lauren Eckert, Ken Hubbard, Kelly Laughlin, John Marchetta, Peter Marshall, Jim Ollerton, Donald Parker, Jesse Perez, Carl Quiram, Eddie Rodriguez, Ian Smith, Steve Stone, Veronica Tamzil, and Steve Wuerth for their support in preparing this document.



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May 28, 2025

Board of Directors
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 Fallbrook, California 92028

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Division 5

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General Manager

David Shank
*Assistant General Manager/
 Chief Financial Officer*

Lauren Eckert
*Executive Assistant/
 Board Secretary*

General Counsel

Paula de Sousa
Best Best & Krieger

Budget Message

Enclosed is the Fiscal Year 2025-26 Adopted 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 implementation of the District's Strategic Plan, a summary of 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.

Operational Efficiency

Over the past two years, the District's water operations has undergone a complete transformation. This transformation includes coordinating the delivery of Santa Margarita River (SMR) water from Camp Pendleton (the District's local water supply), the operation of the new Santa Margarita Groundwater Treatment Plant (SMGTP), and importing water from a new wholesale water provider, Eastern Municipal Water District (EMWD). Staff now have to balance customer water demands, water deliveries from Camp Pendleton and EMWD, water production at the SMGTP with draws from and deposits into the Red Mountain Reservoir. While water operations are more complex, the District is now able to actively manage the water supply mix and minimize water supply costs.

The District is focused on driving operational efficiency by using Key Performance Indicators (KPIs) to identify areas for improvement. KPIs provide metrics (i.e. cost of wastewater treatment per million gallons) that can be compared to peer agencies and tracked over time to evaluate the level of operational performance. These data are then used to optimize operations ensuring the highest level of operational efficiency is attained.

Water Affordability

The District is committed to advocating for ratepayers and securing a reliable and affordable water supply. Last year, the District successfully detached from SDCWA's service area and annexed into EMWD's service area. The result of this change was a significant decrease in the District's cost of imported water. As an EMWD customer, the District's monthly fixed charges decreased by approximately 87%. The cost of treated water deliveries also went down by approximately 20%. These savings allowed the District to hold



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water usage rates flat and reduce the fixed monthly fees paid by customers in calendar year 2024.

However, the District still faces wholesale water rate increases by the Metropolitan Water District (MWD), which are passed through by EMWD. In calendar years 2025 and 2026, MWD is increasing water rates by 11% and 9.5%, respectively. Compounded these increases result in a 21.5% increase in the District's imported water cost.

Offsetting these imported water cost increases is the District's low cost SMR water supply (local supply). The District plans for just over half of its water supply mix to be from local supplies. Due to the low and stable cost of the District's local supply, the District can manage the impact of imported water costs and keep water rate and charge increases in line with inflation. The District's goal is to provide rate payers with smooth and predictable rates and charges and also keep the average residential water bill lower than other surrounding utilities.

Asset Management

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 400 years, which means a significant number of assets in operation were well beyond their expected service life. With this replacement cycle, the frequency of asset failures is expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. Over the past several years, the District has seen an increase in the frequency of emergency water pipeline repairs. In an attempt to mitigate this trend, The District is updating and enhancing its asset management program to better determine both the asset's condition and consequence of failure to support better asset renewal and replacement decisions. With the overall goal of driving the water system's asset service life down from 400 years to 100 years, the District will continue to proactively manage the renewal and rehabilitation program targeting prioritized assets.

Continuous Improvement

The District is focused on leveraging its information management systems into the decision making processes. This includes not only providing field crews and engineering with a mix of information critical to effectively planning and making asset repair and replacement decisions but also providing operating staff key real time data to optimize system operations. Better decisions driving efficient operations will help ensure the District's rates and charge are minimized.

This year, the District will begin to transition to a new modernized Enterprise Resource Planning (ERP) system. In addition, the District will complete updates and enhancements to both the Computerized Maintenance Management System (CMMS) and Geographic Information System (GIS).





Looking Forward

Inter-Agency regional cooperation and partnerships are being carefully evaluated as a way to reinforce the District’s emergency response teams and general operations, reduce training costs, and sharing other administrative services to lower the District’s cost to ratepayers. The ability to share staffing resources across agencies provides access to resources when needed but does not require the District to maintain those resources all the time. This provides the ability for all partners to achieve a higher level of efficiency than if each had to maintain the resources to meet peak/emergency demands. The benefit to ratepayers’ is stable rates and charges that are minimized.

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A handwritten signature in black ink, appearing to read 'Jack Bebee', written over a horizontal line.

Jack Bebee
General Manager

A handwritten signature in black ink, appearing to read 'David Shank', written over a horizontal line.

David Shank
Assistant General Manager/CFO

Staff

Jack Bebee
General Manager

David Shank
*Assistant General Manager/
Chief Financial Officer*

Lauren Eckert
*Executive Assistant/
Board Secretary*

General Counsel

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Budget in Brief

Fiscal Year 2024-25 Accomplishments

- The District's SMGTP was able to process 100% of local water supply available.
- The SMGTP was used to optimize water supply reliability and operating costs.
- Completed key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects.
- Continued both SMGTP and Red Mountain UV facility operations and maintenance to deliver all available water supplies.
- Constructed a new Toyon Pump Station at the site of the UV facility with full SCADA integration for remote monitoring and controls, utilizing available backup power from the existing UV Plant standby diesel generator.
- Constructed a DeLuz Pump Station at the UV facility to move production water out to DeLuz, including SCADA integration for monitoring and controls and utilizing available backup power from the existing UV Plant standby diesel generator.
- Developed the District's Information Management Systems Plan (IMSP) and selected a new Enterprise Resources Planning (ERP) system.
- Advanced asset management program by enhancing the computerized maintenance management system's functionality and utilization by field staff.
- Supported the Community Benefit Program's activities and facilitated the execution of selected projects.
- Produced an Annual Comprehensive Financial Report (ACFR) and an annual budget document that met the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Awards.

Fiscal Year 2025-26 Goals

The Key Goals for the upcoming year include:

- Operate the District's SMGTP with a goal of receiving 100% of the Santa Margarita River water allocation.
- Optimize SMGTP operations to minimize the District's water costs.
- Complete key pipeline replacement projects to maintain system reliability and improve the methodology for evaluating and prioritizing projects.
- Continue both SMGTP and Red Mountain UV facility operations and maintenance to deliver all available water supplies.
- Construct emergency stand-by power for critical water storage and flow control facilities by adding solar and increased battery storage, to maintain communication during long-term power outages caused by PSPS events determined by SDG&E.
- Implement the selected ERP system and go live this fiscal year.
- Complete the CMMS and GIS enhancements and fully support the District's asset management program.
- Support the Community Benefit Program's activities and facilitate the execution of selected projects.
- Produce an Annual Comprehensive Financial Report (ACFR) and an annual budget document that meet the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Awards.
- Implement the District's new Strategic Plan.

Sources of Funds

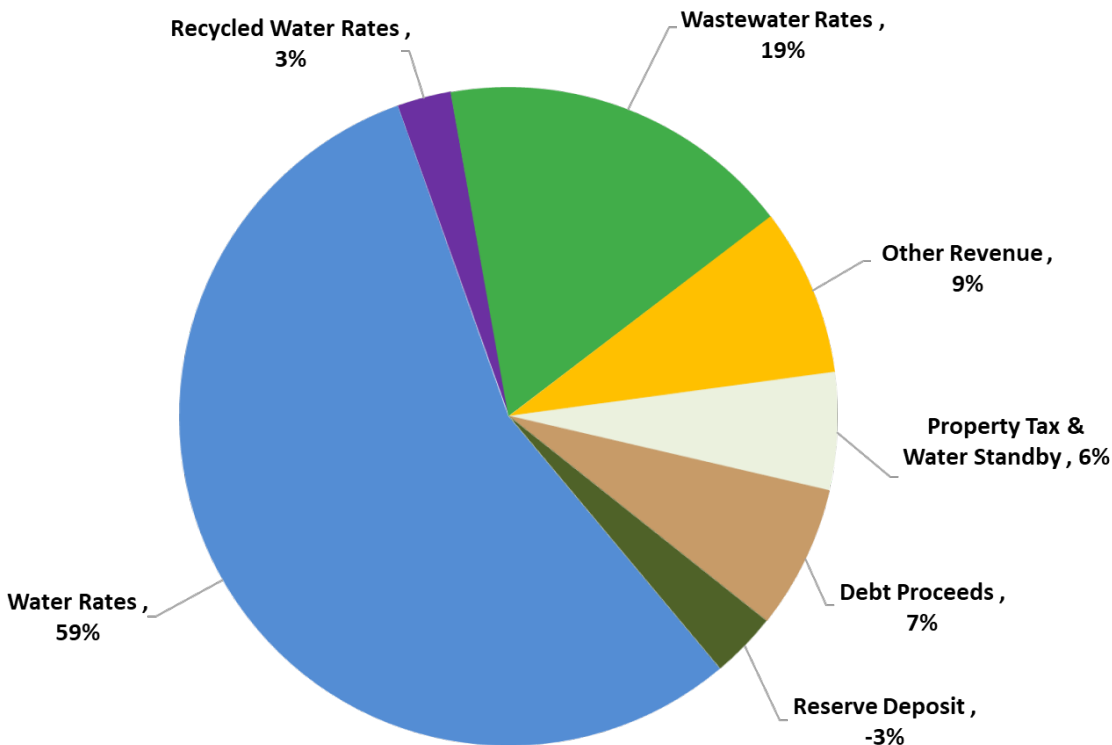
The water, recycled water and wastewater systems combined operating and non-operating revenues, debt proceeds and fund deposits are budgeted to meet the budgeted uses of funds and create a balanced budget. Water sales are projected to be at the long-term average level of 7,000 AF. Based upon the District’s Financial Plan Adopted in 2022, water, recycled water and wastewater rate increases for the Budget are projected at 4.5%, 2.5%, and 2.5%, respectively, for Calendar Year 2026. The Board will take action to adopt Calendar Year 2026 rates and charges in December of 2025 after it has reviewed the District’s Fiscal 2024-25 financial performance. At that time, the Board may choose alternative rate increases.

Rate Relief

Most water agencies are facing increases over 10%, the District, through prudent financial management and cost savings from detachment, has kept rate increases under 5%.

Chart 1 shows a breakdown of the District’s \$48.3 million budgeted sources of funds. Rate and charge revenues make up 81% of the District’s total budgeted sources of funds. The District plans to fund the Wastewater and Recycled Water Capital Improvement Program (CIP) with cash on a Pay-As-You-Go (PAYGO) basis. The District will fund the Water CIP with a mix of bond proceeds and cash. A net fund deposit to reserves is budgeted due to the use of debt proceeds to fund PayGo.

Chart #1 - Sources of Revenue Fiscal Year 2025-26 Total Revenue \$48,260,627



Use of Funds

Chart 2 shows the breakdown of the District’s total use of funds. Labor and benefits represent 27% of the District’s budgeted uses of funds. Seventy-three percent of the District’s uses of funds are for non-labor related expenditures. Non-labor costs represent the District’s single largest use of funds category. Table 1 shows regional wholesale water rates against which the District’s average cost of water production can be compared.

Detachment from SDCWA and annexing into EMWD has cut the District’s Imported Treated Water costs by 50% for FY 2025-2026. Table 1 shows the regional treated wholesale water rates.

Table #1 - Regional Treated Wholesale Water Rates (\$/AF)

Wholesale Supplier	CY 2024	CY 2025	CY 2026	Avg. Annual Increase %
EMWD ¹	\$1,267	\$1,407	\$1,540	10%
SDCWA ²	\$2,048	\$2,431	\$2,874 ³	18%

- (1) Actual and projected unit cost from EMWD.
- (2) Estimated unit cost if FPUD was still attached to SDCWA.
- (3) Based upon the SDCWA FY 2026 and FY 2027 Recommended Budget.

Chart #2 - Uses of Funds Fiscal Year 2025-26 Total Uses of Funds \$48,260,627

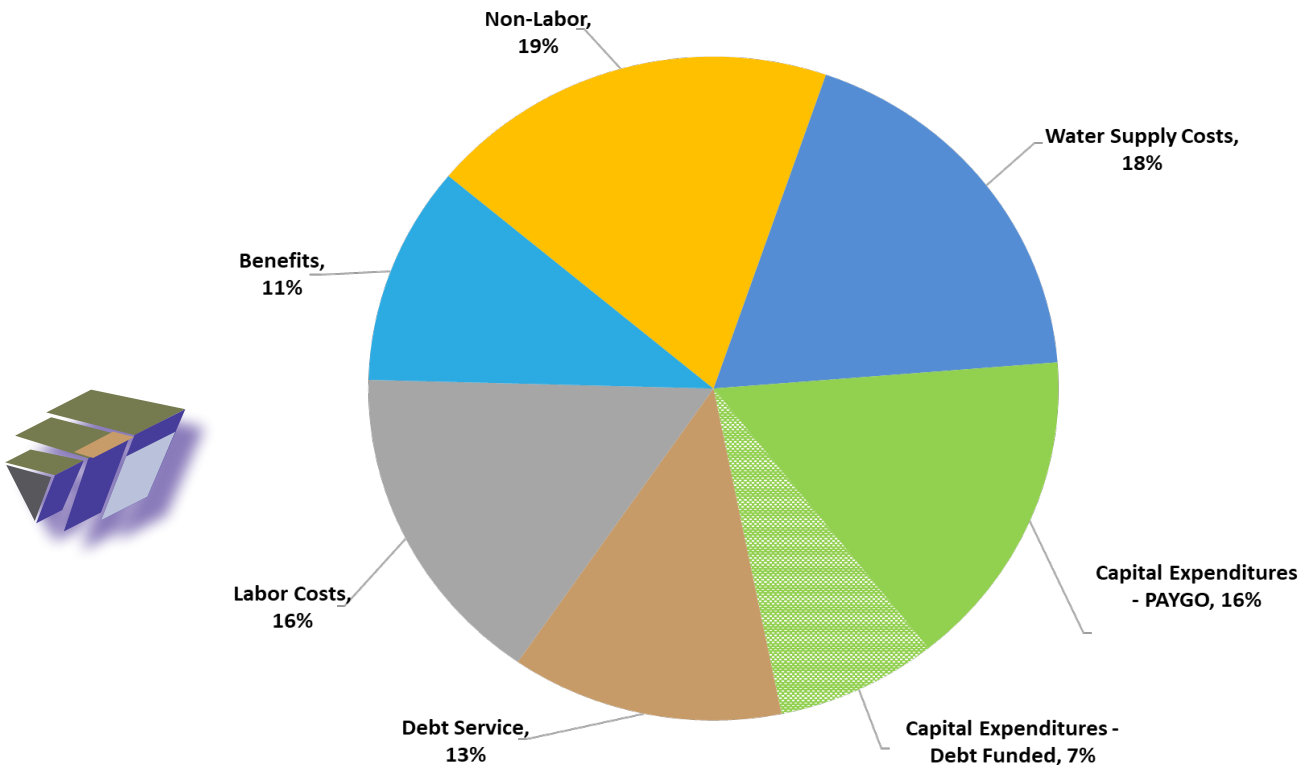


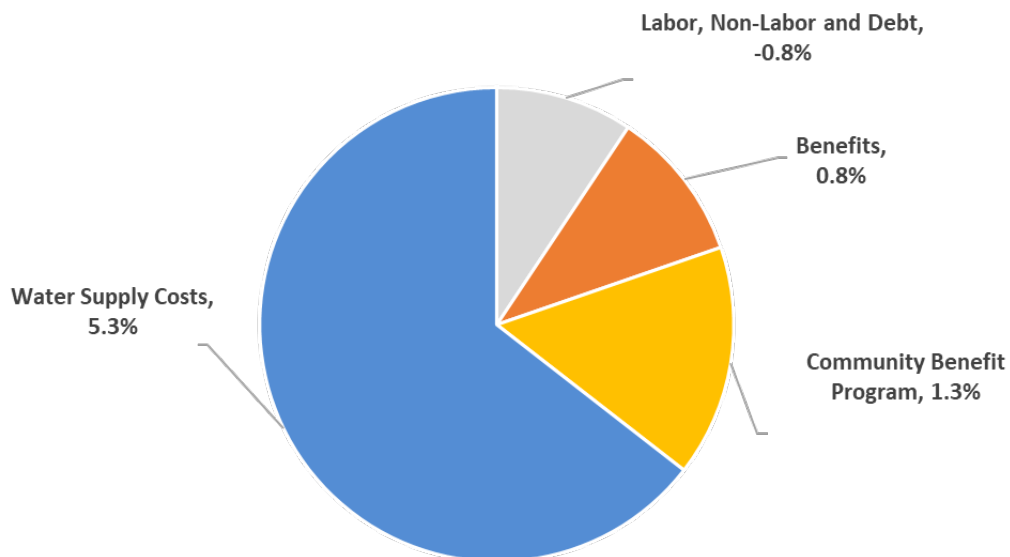
Table 2 shows a significant increase in Water Supply Costs and the Community Benefit Program expenditures while other cost increases are more moderate. Water Supply Cost is dependent on the imported treated water purchases the District budgets to meet customer water demands. Imported water purchases fill the gap between budgeted customer water demands and the amount untreated Santa Margarita River water (Local Supply) available to the District during the budget period. The amount of Local Supply water available to the District is dependent on regional rainfall during the prior water year. During dry periods, less water is available than during wet periods. Rainfall was above average for Fiscal Year 2024-25 and below average Fiscal Year 2025-26 creating a large downward swing in the amount of Local Supply available to meet budgeted customer water demands. As a result, the District is budgeting for a significant increase in the amount of imported treated water purchased from EMWD.

Table #2 - Overview of Total Services' Operating Budget

Description	FY 2023-24	FY 2024-25		FY 2025-26	Amended Budget to Budget Change (%)
	Actual	Amended Budget	Projected	Budget	
Water Supply Costs	\$ 6,659,144	\$ 7,066,273	\$ 7,066,273	\$ 8,893,418	25.9%
Debt Service	5,463,081	6,151,156	6,151,156	6,144,906	-0.1%
Total Labor *	6,821,624	7,314,608	7,314,608	7,615,079	4.1%
Total Non-Labor	8,535,625	8,716,123	8,575,810	8,156,913	-6.4%
Community Benefit Program	266,448	652,366	652,366	1,100,000	68.6%
Operating Total	\$ 27,479,475	\$ 29,900,526	\$ 29,760,213	\$ 31,910,316	6.7%
Benefits Expenses	4,543,704	4,835,681	4,835,681	5,129,311	6.1%
Total Services Operating Budget	\$ 32,023,179	\$ 34,736,207	\$ 34,595,894	\$ 37,039,627	6.6%

* Total Labor does not include District's Benefits

Chart #3 - Overall Budget Increase



The cost to deliver the SMR water to customers includes the payment to Camp Pendleton to pump the water to the SMGTP (included in Water Supply Costs) and the cost to treat the Local Supply to drinking water standards at the SMGTP, which is included in the Water Treatment Division’s budget. Table 3 shows the District’s Total Cost of Water Production which includes Water Supply Costs and the Water Treatment Division’s Operating and Maintenance (O&M) Costs and the debt service for the SMGTP Loan. The 34.4% decrease in that division’s non-labor costs are being driven by a reduction in power and chemical costs to treat reduced volumes of SMR water. The increase in labor is associated with accelerated maintenance activities at SMGTP. Because the District’s water supply mix can vary significantly year to year, Budget comparisons are complex and difficult to make. The 17.9% increase in the Total Cost of Water Production in Fiscal Year 2025-26 is due to the amount of low cost local water supply available to the District. However, the cost is less than in Fiscal Year 2023-24 keeping a downward trend intact.

The Community Benefit Program is increasing funding by utilizing funds already set aside but not spent in the initial years of operations. This increase in funding activity is contributing to the overall budget increase. Overall, the 6.6% increase in the Operating Budget, illustrated in Chart 3, is being driven by an increase in the cost of wholesale water.

Table #3 - District’s Cost of Water Production

Description	FY 2023-24		FY 2024-25		FY 2025-26		Projected to Recommended Budget Change(%)
	Acre Feet	Actual	Acre Feet	Projected	Acre Feet	Recommended Budget	
Water Supply Costs							
SDCWA Wholesale Treated Water Costs	1,807	\$ 3,921,669	0	\$ -	0	\$ -	0.0%
EMWD Wholesale Treated Water Costs	550	697,103	4,383	5,720,992	5,373	7,754,358	35.5%
MWD Pass Through Charges	N/A	437,332	N/A	-	N/A	234,222	100%
Camp Pendleton SMR Untreated Water Delivery Costs	4,162	1,363,014	3,100	957,156	2,195	704,837	-26.4%
Red Mountain Inventory Withdrawal	0	-	625	188,125	0	-	-100.0%
System Pumping	N/A	240,026	N/A	200,000	N/A	200,000	0.0%
Subtotal Water Supply Costs		\$ 6,659,144		\$ 7,066,273		\$ 8,893,418	25.9%
O&M Costs							
Water Treatment Division Labor & Benefits Budget*	4,787	858,339	3,100	882,775	2,195	973,595	10.3%
Water Treatment Division Non-Labor Budget	4,787	1,763,984	3,100	1,887,375	2,195	1,238,220	-34.4%
SMRCUP Debt	N/A	2,814,795	N/A	2,814,795	N/A	2,814,795	0.0%
Subtotal O&M Costs		5,437,118		5,584,945		5,026,610	-10.0%
Total Cost of Water Production		\$ 12,096,262		\$ 12,651,218		\$ 13,920,029	10.0%
Subtotal Acre Feet Purchased	6,519		8,108		7,568		-6.7%
Total Cost of Water Production (\$/AF)		\$ 1,856		\$ 1,560		\$ 1,839	17.9%

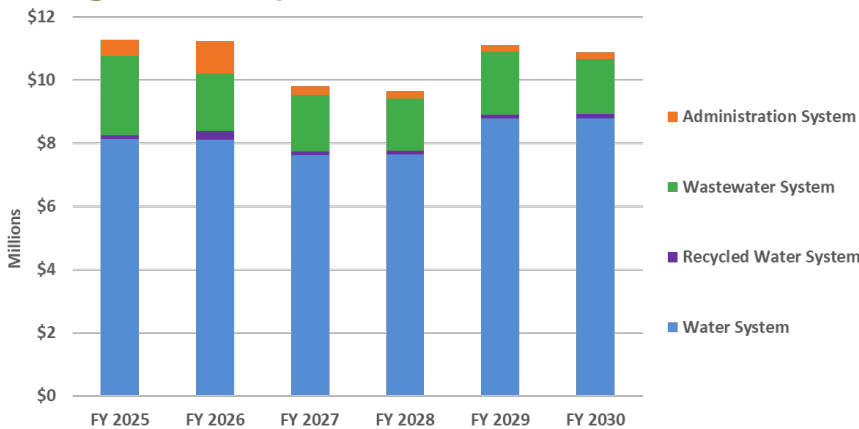
* Treatment Division Labor & Benefits increase is due to a \$43,570 increase in benefits and a \$47,250 increase in labor for preventative maintenance.



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. Chart 4 shows the annual CIP expenditures by project type. The Capital Budget for Fiscal Year 2025-26 is \$11.2 million. The CIP budget for Fiscal Year 2025-26 is higher than average due to the inclusion of a \$1.3 million project that will provide emergency power at the SMGTP. The cost of this important project is funded by a grant the District secured, saving rate payers \$1.3 million and making the District’s water services more reliable during emergencies.

Chart #4 - Fallbrook Public Utility District’s Annual Budgeted CIP Expenditures



Capital Improvement Program Funds

The District will fund the Wastewater and Recycled CIP projects with PAYGO funds while the Water CIP projects will be funded with a combination of Water Revenue Bond proceeds and PAYGO.

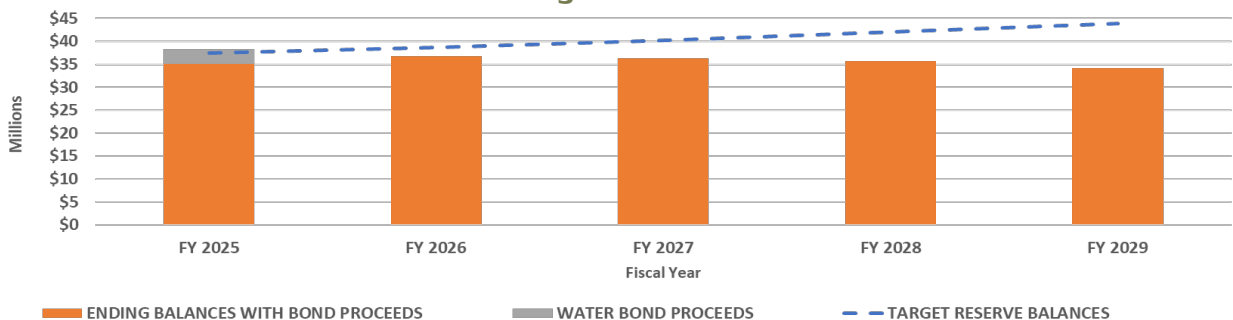
Financial Summaries

This year, as shown in the updated financial projections for Fiscal Year 2025-26 in Table 4, 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. The District’s detachment from SDCWA and annexation into EMWD’s service area has stabilized the District’s Cost of Water Supplies but capital funding needs will put upward pressure on future rates and charges. Balancing rate and charge increases with capital funding needs will be key to future rate and charge decisions.

Chart 5 shows the District’s reserve balances are expected to remain flat as the District’s Target Reserve Level increases. The Red Mountain Reservoir Relining Project is expected to be necessary in the next 10 years and cost the District more than \$20 million. The project funding plan includes creating a reserve to collect funds from current rate payers to provide a level of cash funding for the project. The District is projected to maintain a debt service coverage level in excess of its required 1.2x for all of its enterprises.

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



As shown in the financial projections in Table 4, a budgeted reserve deposit of \$1.7 million is planned for Fiscal Year 2025-26 followed by a series of small reserve withdraws keeping reserves relatively flat.

Table #4 - Fallbrook Public Utility District’s Financial Summary

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Revenues					
Revenue from Rates					
Water	\$ 26,855,382	\$ 26,694,752	\$ 27,875,358	\$ 29,108,270	\$ 30,398,100
Recycled Water	1,332,131	1,365,039	1,398,983	1,433,840	1,469,615
Wastewater	7,407,816	7,512,322	7,617,797	7,773,915	7,982,783
Subtotal Revenue from Rates	\$ 35,595,330	\$ 35,572,113	\$ 36,892,139	\$ 38,316,025	\$ 39,850,497
Other Operating Revenue Subtotal	\$ 440,000	\$ 440,000	\$ 440,000	\$ 440,000	\$ 440,000
Non-Operating Revenue	\$ 9,812,803	\$ 10,278,681	\$ 9,317,341	\$ 9,109,210	\$ 9,349,439
Total Revenues	\$ 45,848,133	\$ 46,290,794	\$ 46,649,480	\$ 47,865,235	\$ 49,639,936
Total Operating Expenses	\$ 27,792,371	\$ 29,794,721	\$ 30,655,333	\$ 32,366,313	\$ 33,882,093
Net Operating Revenues	\$ 18,055,761	\$ 16,496,073	\$ 15,994,147	\$ 15,498,923	\$ 15,757,843
Total Non-Operating Expenses	\$ 652,366	\$ 1,100,000	\$ 546,000	\$ 546,000	\$ 546,000
Total Debt Service	\$ 6,151,156	\$ 6,144,906	\$ 6,146,209	\$ 5,886,273	\$ 5,622,853
Total Capital Expenditures	\$ 11,284,785	\$ 11,221,000	\$ 9,798,390	\$ 9,643,581	\$ 11,107,570
Total Expenditures	\$ 45,880,679	\$ 48,260,627	\$ 47,145,932	\$ 48,442,167	\$ 51,158,516
Water Revenue Bond Proceeds Spent	\$ 5,154,777	\$ 3,631,541	\$ -	\$ -	\$ -
Change in Net Position*	\$ 3,559,731	\$ 1,661,708	\$ (496,452)	\$ (576,932)	\$ (1,518,580)
<i>Beginning Balances</i>	<i>\$ 31,578,500</i>	<i>\$ 35,138,231</i>	<i>\$ 36,799,939</i>	<i>\$ 36,303,486</i>	<i>\$ 35,726,555</i>
<i>Ending Balances</i>	<i>\$ 35,138,231</i>	<i>\$ 36,799,939</i>	<i>\$ 36,303,486</i>	<i>\$ 35,726,555</i>	<i>\$ 34,207,975</i>

* Change in net position is Total Revenues minus Total Expenditures plus Water Revenue Bond Proceeds Spent. The FY 2024-25 change in net position includes the 115 Pension Trust Transfer of \$1,562,500.

Monitoring District Performance

The District has added, as part of the District’s efforts to optimize operations and monitor operational and financial performance, several Key Performance Metrics (KPIs) to its Performance score card. Each of the KPIs is tied to a District strategic objectives and is both meaningful and measurable. The KPIs were selected to provide a means to compare the District to peer agencies to evaluate the District’s relative performance. Since these were implemented recently, there is only limited historic information available. As time progresses, the KPI data will provide valuable information to managers and stakeholders.



Table #5 - District's Key Performance Indicators

Strategic Goal	Dept.	Key Performance Indicator	Target	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Estimated	Target Met
Safe and Reliable Water, Wastewater, and Recycled Water Services	Water	Cost/Acre Foot of SMGTP Product Water Supply	Below \$1,500/AF	\$1,640/AF ¹	\$1,062/AF	\$852/AF	\$1,026/AF	Yes
Infrastructure and Technology Stability	Wastewater	Cost/MGD of Wastewater Influent Flows	Below \$3,500/MGD	\$3,497/MGD	\$3,146/MGD	\$3,023/MGD	\$3,328/MGD	Yes
Fiscal Sustainability and Transparency	Finance	Debt Coverage	>1.20	2.05	4.19	2.69	2.71	Yes
Fiscal Sustainability and Transparency	Finance	Days Cash on hand	90 days or greater	109 days	113 days	94 days	110 days	Yes

(1) FY 2021-22 was the first year of SMGTP's operation which included additional startup costs that exceeded normal year expenditures.

Budget User Guidance*

The District's Fiscal Year 2025-26 Adopted 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, 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.

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Christopher P. Morill

Executive Director

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