

## Budget in Brief

### Fiscal Year 2025-26 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.
- Executed an Inter Governmental Service Agreement (IGSA) with Camp Pendleton (CPEN) for the Contract Operations of their two wastewater facilities located on the base.
- Hired 13 employees and began Contract Operations of the CPEN wastewater facilities on April 1.
- 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 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.
- Began implementation of the selected ERP system beginning with our financial system.
- Completed CMMS and GIS enhancements to better support the District's asset management program.
- 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.
- Implemented the District's new Strategic Plan.

### Fiscal Year 2026-27 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.
- Optimize Contract Operations at CPEN and stabilize system performance through targeted renewal and replacement projects.
- 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.
- Implement the selected ERP system, train staff and go live this fiscal year with the financial system.
- Complete the CMMS and GIS enhancements.
- 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.

Sources of Funds

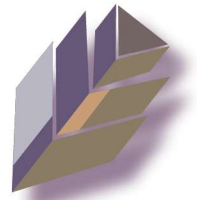
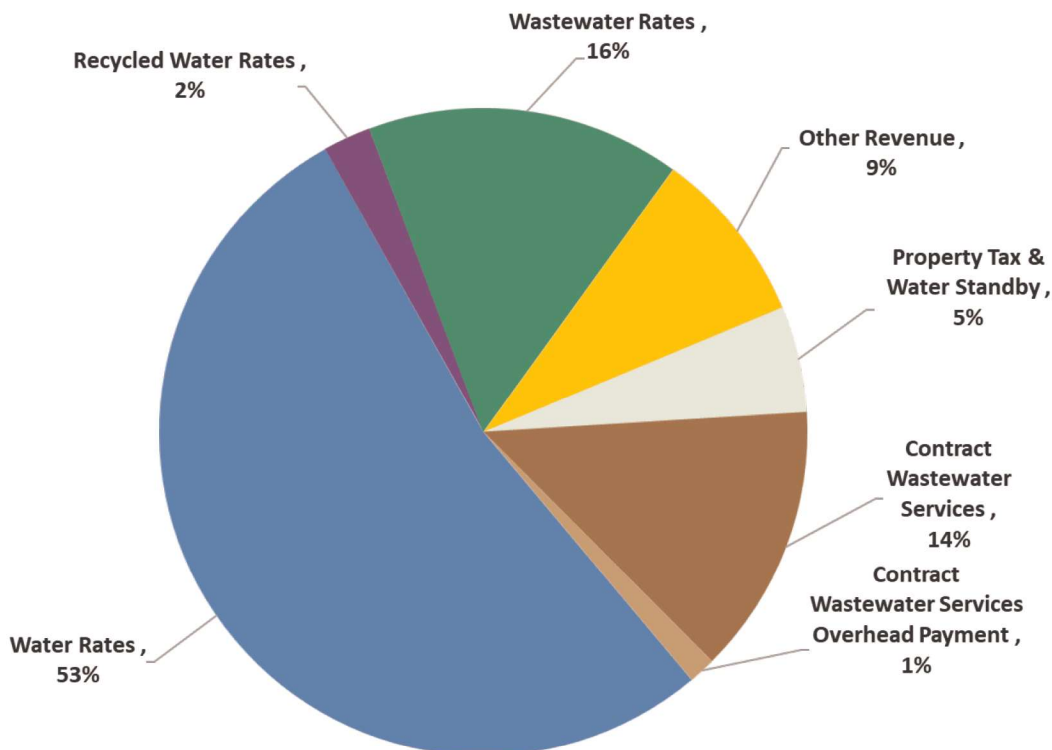
The water, recycled water and wastewater systems combined operating and non-operating revenues, debt proceeds and fund deposits are budgeted to meet the budgeted uses of funds and create a balanced budget. Water sales are projected to be at the long-term average level of 7,000 AF. Based upon the District’s Financial Plan Adopted in 2022, water, recycled water and wastewater rate increases for the Budget are projected at 6%, 1%, and 2.5%, respectively, for Calendar Year 2027. The Board will take action to adopt Calendar Year 2027 rates and charges in December of 2026 after it has reviewed the District’s Fiscal 2025-26 financial performance. At that time, the Board may choose alternative rate increases.

Chart 1 shows a breakdown of the District’s \$57 million budgeted sources of funds. Rate and charge revenues make up 72% of the District’s total budgeted sources of funds. Contract Wastewater Services and the budgeted overhead make up 15% of the District’s total budgeted sources of funds. The District plans to fund the Water, Wastewater and Recycled Water Capital Improvement Program (CIP) with cash on a Pay-As-You-Go (PAYGO) basis.

**Rate Relief**

Many regional water agency customers have faced 6% annual rate increases, while the District rate payers have seen an average annual increase of 2%. Prudent financial management and cost savings from detachment have kept annual rate increases lower than the rate of inflation.

Chart #1 - Sources of Revenue Fiscal Year 2026-27 Total Revenue \$57,454,665



Use of Funds

Chart 2 shows the breakdown of the District’s total use of funds. Labor and benefits represent 24% of the District’s budgeted uses of funds, and Contract Wastewater Services represent 13%. Sixty-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. A net fund deposit to reserves is budgeted this year.

Table 1 shows regional wholesale water rates against which the District’s average cost of water production can be compared.

As a result of detachment the District’s wholesale water costs are 41% lower.

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

Wholesale Supplier	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027
EMWD <sup>1</sup>	\$1,220	\$1,267	\$1,407	\$1,540	\$1,623
SDCWA <sup>2</sup>	\$2,029	\$2,237	\$2,572	\$2,798	\$3,132
<b>Savings</b>	<b>\$809</b>	<b>\$970</b>	<b>\$1,165</b>	<b>\$1,258</b>	<b>\$1,509</b>

(1) Actual and projected unit cost from EMWD.  
 (2) Estimated unit cost if FPUD was still attached to SDCWA.

Chart #2 - Uses of Funds Fiscal Year 2026-27 Total Uses of Funds \$57,454,665

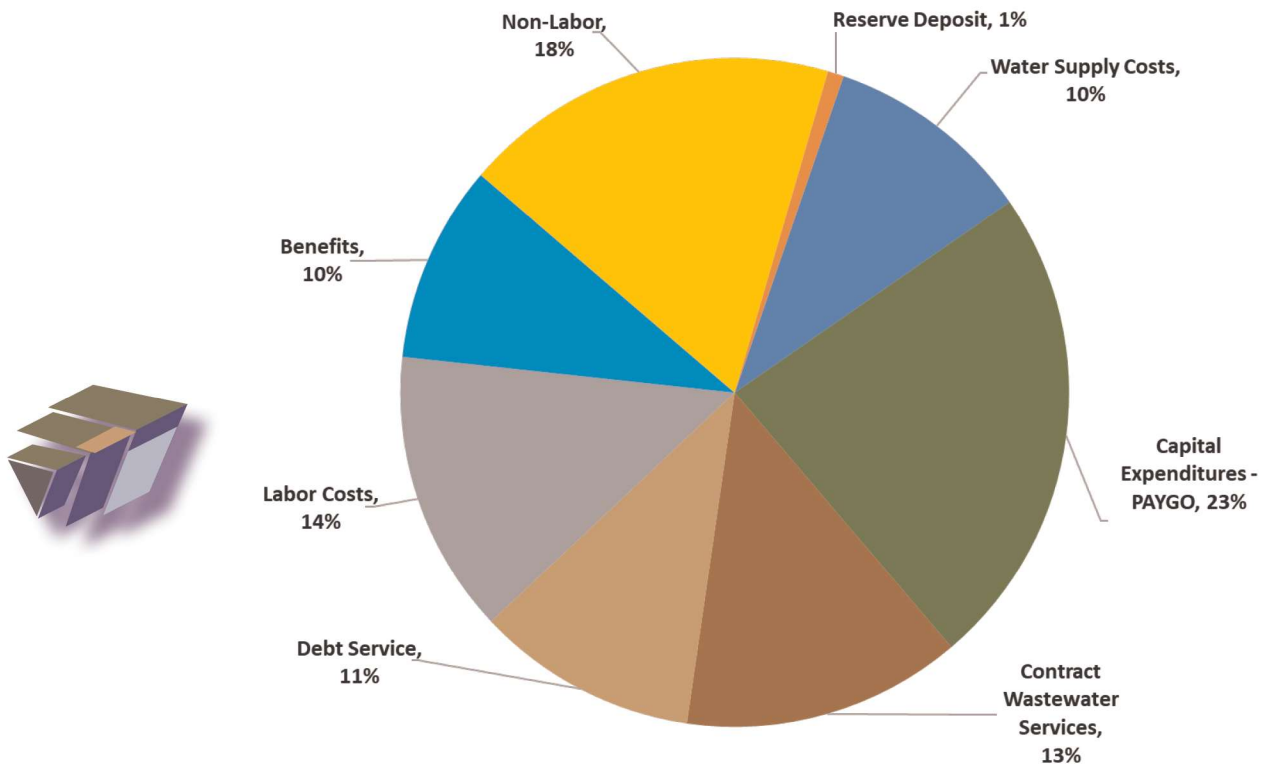


Table 2 shows a significant decrease in Water Supply Costs and the Community Benefit Program expenditures while other cost increases are more moderate. Water Supply Cost is dependent on the imported treated water purchases the District budgets to meet customer water demands. Imported water purchases 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 Years 2024-25 and Fiscal Year 2025-26 creating a large upward swing in the amount of Local Supply available to meet budgeted customer water demands. As a result, the District is budgeting for a significant decrease in the amount of imported treated water purchased from EMWD.

Overall, the 6.5% increase in the Operating Budget, illustrated in Chart 3, is being driven by the addition of Contract Wastewater Services. This increase is particularly because the budget for these services is moving from a six-month term to a full-year term.

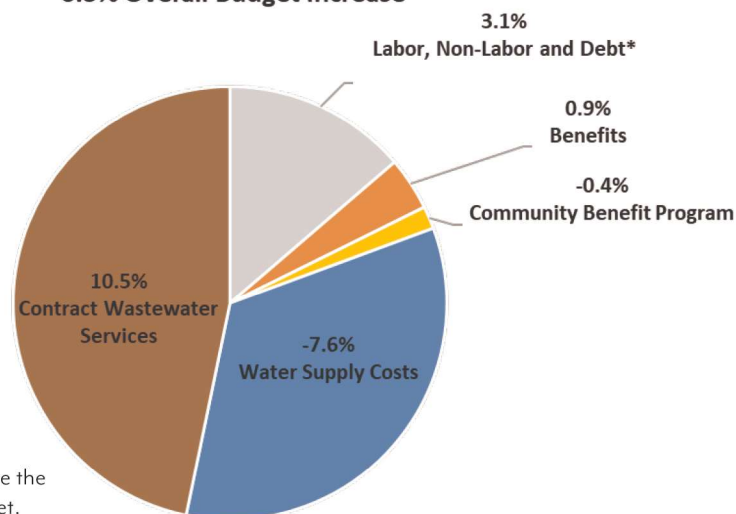
**Table #2 - Overview of Total Services' Operating Budget**

Description	FY 2024-25	FY 2025-26			FY 2026-27	Amended Budget to Budget Change (%)
	Actual	Original Budget	Amended Budget	Projected	Budget	
Water Supply Costs	\$ 5,795,983	\$ 8,893,418	\$ 8,893,418	\$ 4,785,294	\$ 5,792,919	-34.9%
Debt Service	6,151,156	6,144,906	6,144,906	6,144,906	6,146,209	0.0%
Total Labor <sup>(1)</sup>	7,177,443	7,615,079	7,615,079	7,617,608	7,880,042	3.5%
Total Non-Labor	7,524,200	8,156,913	8,156,913	8,690,976	9,535,804	16.9%
Community Benefit Program	651,685	1,100,000	1,100,000	865,854	945,915	-14.0%
Benefits Expense	4,729,844	5,129,311	5,129,311	5,266,227	5,492,656	7.1%
Contract Wastewater Svcs Overhead	-	-	(387,217)	(387,217)	(776,256)	100.5%
<b>Total FPU D Operating</b>	<b>\$32,030,311</b>	<b>\$37,039,627</b>	<b>\$36,652,410</b>	<b>\$32,983,648</b>	<b>\$35,017,289</b>	<b>-4.5%</b>
<b>Total Contract Wastewater Svcs <sup>(2)</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,259,388</b>	<b>\$ 4,259,388</b>	<b>\$ 8,538,819</b>	<b>100.5%</b>
<b>Total Budget</b>	<b>\$32,030,311</b>	<b>\$37,039,627</b>	<b>\$40,911,797</b>	<b>\$37,243,036</b>	<b>\$43,556,107</b>	<b>6.5%</b>

<sup>(1)</sup> Total Labor does not include District's Benefits.

<sup>(2)</sup> FY 2025-26 Amended budget for Contract Wastewater Services was for a 6-month period. Payment for the services are made by the federal government.

**Chart #3 - Overall Budget Increase**  
6.5% Overall Budget Increase



\* Labor, Non-Labor and Debt include the Contract Wastewater Services offset.

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 12.9% increase in that division’s non-labor costs are being driven by an increase in power and chemical costs. 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 12.8% increase in the Total Cost of Water Production in Fiscal Year 2026-27 is due to increased costs discussed above and the ramping up of MWD’s fixed charges. Even with these cost increases, the District’s average cost of water production is \$1,585/AF compared to EMWD’s costs, including MWD’s fixed costs, of \$1,623/AF.

**Table #3 - District’s Cost of Water Production**

	FY 2024-25		FY 2025-26		FY 2026-27		Projected to Adopted Budget Change(%)
	Description	Acre Feet Actual	Acre Feet Projected	Acre Feet Adopted Budget			
<b>Water Supply Costs</b>	EMWD Wholesale Treated Water Costs	3,539 \$ 4,686,389	2,189 \$ 3,159,535	2,448 \$ 3,697,059	17.0%		
	MWD Readiness To Serve Charges	N/A (120,492)	N/A (335,555)	N/A (153,092)	54.4%		
	MWD Capacity Charges	N/A (95,200)	N/A 84,223	N/A 183,973	-118.4%		
	MWD Fixed Charges	N/A -	N/A -	N/A 245,351	N/A		
	Camp Pendleton SMR Untreated Water Delivery Costs	3,771 1,149,490	5,379 1,727,092	5,120 1,709,849	-1.0%		
	Red Mountain Inventory Withdrawal	166 50,595	- -	0 -	N/A		
	System Pumping	N/A 125,201	N/A 150,000	N/A 109,779	-26.8%		
	<b>Subtotal Water Supply Costs</b>	<b>\$ 5,795,983</b>	<b>\$ 4,785,294</b>	<b>\$ 5,792,919</b>	<b>21.1%</b>		
<b>O&amp;M Costs</b>	Water Treatment Division Labor & Benefits Budget*	3,771 927,610	5,379 898,582	5,120 980,291	9.1%		
	Water Treatment Division Non-Labor Budget	3,771 1,484,212	5,379 2,131,412	5,120 2,405,694	12.9%		
	SMRCUP Debt	N/A 2,814,795	N/A 2,814,795	N/A 2,814,795	0.0%		
	<b>Subtotal O&amp;M Costs</b>	<b>\$ 5,226,617</b>	<b>\$ 5,844,789</b>	<b>\$ 6,200,780</b>	<b>6.1%</b>		
<b>Total Cost of Water Production</b>	<b>\$ 11,022,600</b>	<b>\$ 10,630,084</b>	<b>\$ 11,993,698</b>	<b>12.8%</b>			
Subtotal Acre Feet Purchased	7,476	7,568	7,568	0.0%			
<b>Total Cost of Water Production (\$/AF)</b>	<b>\$ 1,474</b>	<b>\$ 1,405</b>	<b>\$ 1,585</b>	<b>12.8%</b>			

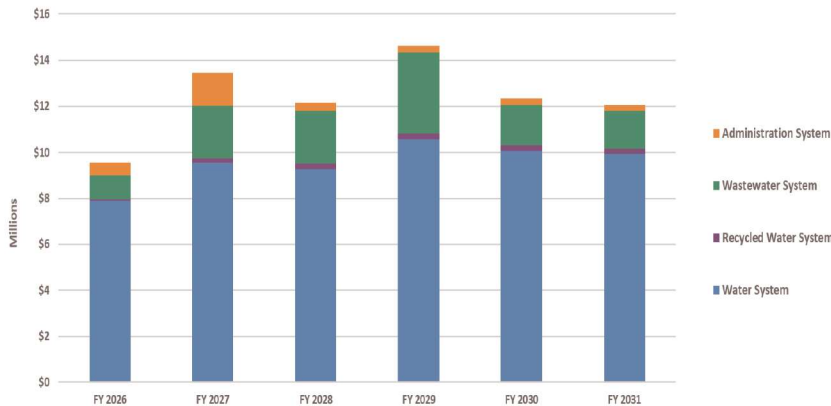
\* Treatment Division Labor & Benefits increase is due to a \$35,374 increase in benefits and a \$46,335 increase in labor for preventative maintenance.



**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 2026-27 is \$13.5 million. The CIP budget for Fiscal Year 2026-27 is higher than average due to the inclusion of a \$1.5 million project that will provide emergency power at the SMGTP. \$1.3 million 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. Another \$1.25 million of Federal Community Grant funding will be utilized for the Gumtree and Knoll Park Pipeline Projects. These grant funds enable the District to accomplish the capital program goals more quickly while reducing the cost impact on rate payers.

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



**Capital Improvement Program Funds**

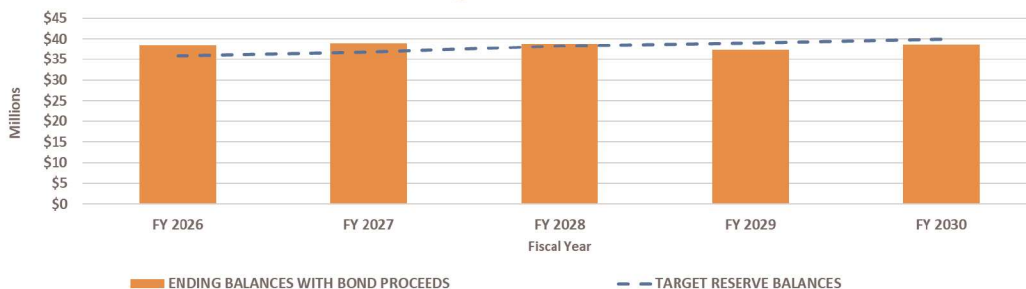
The District secured \$2.55 million in grant funding, which supports the District’s capital program goals.

**Financial Summaries**

This year, as shown in the updated financial projections for Fiscal Year 2026-27 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 \$0.4 million is planned for Fiscal Year 2026-27 followed by a small reserve withdrawal.

**Table #4 - Fallbrook Public Utility District's Financial Summary**

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 26,925,612	\$ 28,379,241	\$ 30,117,172	\$ 32,030,324	\$ 34,067,289
Recycled Water	1,355,365	1,369,225	1,392,768	1,427,057	1,462,584
Wastewater	7,367,643	7,511,628	7,668,311	7,879,005	8,095,015
<b>Subtotal Revenue from Rates</b>	<b>\$ 35,648,620</b>	<b>\$ 37,260,094</b>	<b>\$ 39,178,251</b>	<b>\$ 41,336,386</b>	<b>\$ 43,624,888</b>
Contract Wastewater Services	\$ 4,259,388	\$ 8,538,819	\$ 8,875,767	\$ 9,226,194	\$ 9,590,638
Other Operating Revenue	462,490	457,490	457,490	457,490	457,490
<b>Other Operating Revenue Subtotal</b>	<b>\$ 4,721,878</b>	<b>\$ 8,996,309</b>	<b>\$ 9,333,257</b>	<b>\$ 9,683,684</b>	<b>\$ 10,048,128</b>
<b>Non-Operating Revenue</b>	<b>\$ 11,064,838</b>	<b>\$ 11,198,262</b>	<b>\$ 9,398,301</b>	<b>\$ 9,630,494</b>	<b>\$ 9,891,778</b>
<b>Total Revenues</b>	<b>\$ 51,435,336</b>	<b>\$ 57,454,665</b>	<b>\$ 57,909,809</b>	<b>\$ 60,650,564</b>	<b>\$ 63,564,795</b>
<b>Total Operating Expenses</b>	<b>\$ 30,232,276</b>	<b>\$ 36,463,983</b>	<b>\$ 39,697,933</b>	<b>\$ 41,593,237</b>	<b>\$ 43,771,279</b>
<b>Net Operating Revenues</b>	<b>\$ 21,203,059</b>	<b>\$ 20,990,681</b>	<b>\$ 18,211,877</b>	<b>\$ 19,057,327</b>	<b>\$ 19,793,515</b>
<b>Total Non-Operating Expenses</b>	<b>\$ 865,854</b>	<b>\$ 945,915</b>	<b>\$ 546,000</b>	<b>\$ 546,000</b>	<b>\$ 546,000</b>
<b>Total Debt Service</b>	<b>\$ 6,144,906</b>	<b>\$ 6,146,209</b>	<b>\$ 5,886,273</b>	<b>\$ 5,622,853</b>	<b>\$ 5,624,655</b>
<b>Total Capital Expenditures</b>	<b>\$ 9,579,296</b>	<b>\$ 13,455,000</b>	<b>\$ 12,147,305</b>	<b>\$ 14,615,224</b>	<b>\$ 12,341,205</b>
<b>Total Expenditures</b>	<b>\$ 46,822,332</b>	<b>\$ 57,011,107</b>	<b>\$ 58,277,511</b>	<b>\$ 62,377,314</b>	<b>\$ 62,283,139</b>
<b>Water Revenue Bond Proceeds Spent</b>	<b>\$ 3,702,076</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Net Position*</b>	<b>\$ 8,315,080</b>	<b>\$ 443,558</b>	<b>\$ (367,702)</b>	<b>\$ (1,726,751)</b>	<b>\$ 1,281,656</b>
<i>Beginning Balances</i>	<i>\$ 30,138,046</i>	<i>\$ 38,453,126</i>	<i>\$ 38,896,683</i>	<i>\$ 38,528,982</i>	<i>\$ 36,802,231</i>
<i>Ending Balances</i>	<i>\$ 38,453,126</i>	<i>\$ 38,896,683</i>	<i>\$ 38,528,982</i>	<i>\$ 36,802,231</i>	<i>\$ 38,083,887</i>

\* Change in net position is Total Revenues minus Total Expenditures plus Water Revenue Bond Proceeds Spent. The FY 2025-26 change in net position includes the 115 Pension Trust Transfer of \$500,000.

### 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 Actual	FY 2025-26 Estimated	Target Met
Safe and Reliable Water, Wastewater, and Recycled Water Services	Water	Cost/Acre Foot of SMGTP Product Water Supply	Below MWD Rates	\$1,640/AF <sup>1</sup>	\$1,062/AF	\$1,450/AF	\$711/AF <sup>2</sup>	\$1,423AF	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	\$3,113/MGD	Yes
Fiscal Sustainability and Transparency	Finance	Debt Coverage	>1.20	2.05	4.19	2.64	3.21	3.45	Yes
Fiscal Sustainability and Transparency	Finance	Days Cash on hand	90 days or greater	109 days	113 days	94 days	118 days	104 days	Yes

(1) FY 2021-22 was the first year of SMGTP’s operation which included additional startup costs that exceeded normal year expenditures.  
 (2) FY 2024-25 included a \$2.75 million water bank buy down which reduced the cost/acre foot.

**Budget User Guidance\***

The District’s Fiscal Year 2026-27 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 along with the Community Benefit Program and Contract Wastewater Services.

**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.

**DISTINGUISHED BUDGET PRESENTATION AWARD**



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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Budget Presentation  
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**Fallbrook Public Utility District  
California**

For the Fiscal Year Beginning

**July 01, 2025**

*Christopher P. Morill*

Executive Director

**OPERATING BUDGET EXCELLENCE AWARD**



**DISTRICT OF DISTINCTION-Special District Leadership Foundation**

