

# Fallbrook Public Utility District

Fiscal Year 2024-2025 Adopted Annual Budget



## Budget in Brief

### Fiscal Year 2023-24 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 improved the methodology for evaluating and prioritizing projects.
- Completed a new meter testing program that tests 400 meters a year.
- Completed the detachment from San Diego County Water Authority (SDCWA) and annexation into Eastern Municipal Water District's (EMWD) service area.
- Completed the first round of grant funding for the Community Benefit Program's selected regional projects.
- Received the inaugural credit rating of AA- from Standard and Poors for the Water System and issued the 2024 Water Revenue Bonds to fund water capital projects.
- Completed the transition to a new third party administrator for the District's deferred compensation plans and implemented a fiduciary oversight committee.
- Implemented and tracked new operational and financial performance indicators for water, recycled water and wastewater that can be used to benchmark performance.
- The District's Annual Comprehensive Financial Report (ACFR) and an annual budget documents received the Government Financial Officers Association's (GFOA) Excellence in Financial Reporting and Distinguished Budget Presentation Awards

### Fiscal Year 2024-25 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 a new Toyon Pump Station at the site of the UV facility.
- Construct a De Luz Pump Station at the UV facility to move production water out to De Luz.
- Initiate the review and upgrade of the District's Enterprise Resource Planning system to better support operations and decision making.
- Advance asset management program by enhancing the computerized maintenance management system's functionality and utilization by field staff.
- 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**

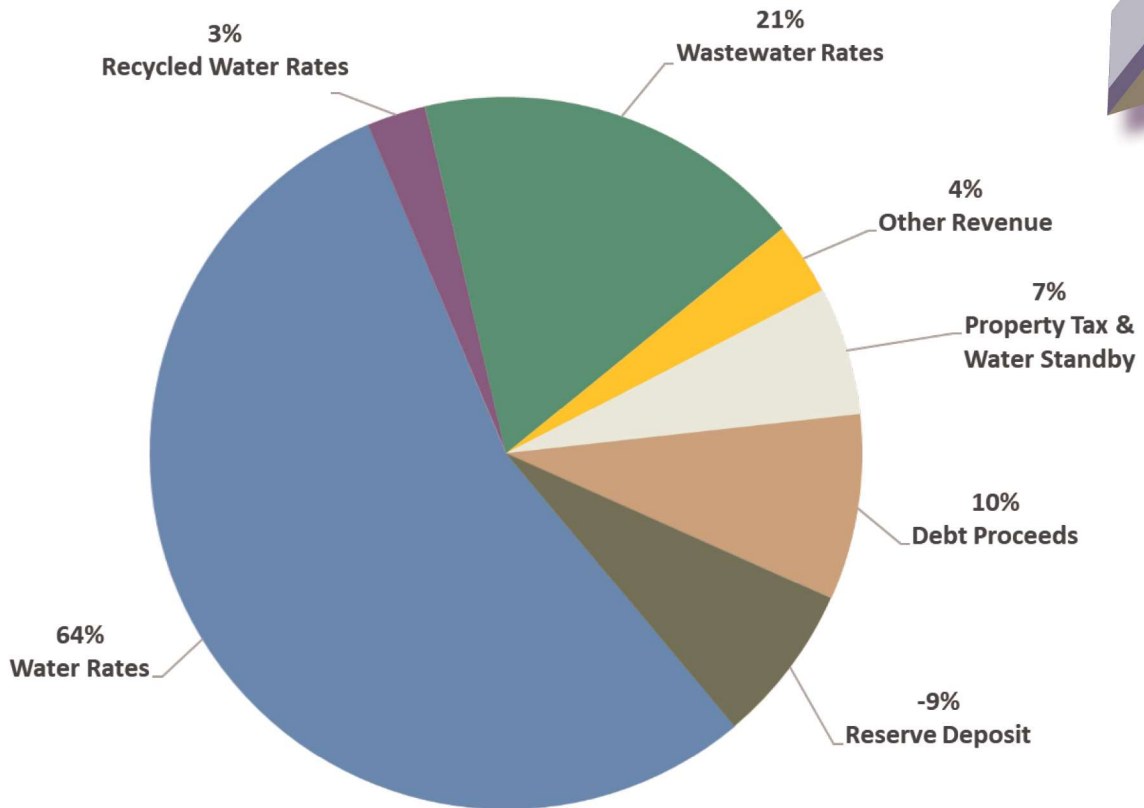
The water, recycled water and wastewater systems combined operating and non-operating revenues, debt proceeds and fund deposits are budgeted to meet the budgeted uses of funds and create a balanced budget. With Fiscal Year 2023-24 on track to set the District’s lowest ever annual water sales level, the Budget projections for Fiscal Year 2023-24 use 6,500 AF for water sales, which is 1,000 AF below what was budgeted. This is approximately 12% below the long-term average of 7,400 AF and reflects the extreme wet and cool year the region has had. Based upon the District’s Financial Plan Adopted in 2022, water, recycled water and wastewater rate increases for the Budget are projected at 3.5%, 2.5%, and 5%, respectively, for Calendar Year 2025. The Board will take action to adopt Calendar Year 2025 rates and charges in December of 2024 after it has reviewed the District’s Fiscal 2023-24 financial performance. At that time, the Board may choose alternative rate increases.

**Rate Relief**

The cost savings from detachment allowed the Board to keep calendar year 2024 water consumption rates flat and reduced the monthly fixed charges in spite of increasing wholesale water rates and charges.

Chart 1 shows a breakdown of the District’s \$42.7 million budgeted sources of funds. Rate and charge revenues make up 88% 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 and will help replenish reserves drawn down this year to fund the Detachment Fee.

**Chart #1 - Sources of Revenue Fiscal Year 2024-25 Total Revenue \$42,712,987**



Use of Funds

Table 1 shows the dramatic decrease in Water Supply costs, in spite of the adopted 11% increase in EMWD’s wholesale water rates, highlights the District’s transition from total reliance on imported supplies to having a local water supply. The District expects to get approximately 92% of its budgeted water supply from the Santa Margarita River (SMR) this Budget cycle. 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 water to drinking water standards at the SMGTP, which is included in the Water Treatment Division’s budget. The 35% increase in that division’s non-labor costs are being driven by power and chemical costs to treat the SMR water. Because the SMGTP operations costs and EMWD’s wholesale water costs are budgeted differently, any changes in the water supply mix make year-over-year Budget comparisons more complex. However, the overall increase takes into account changes in the supply mix and cost structure to provide a good year-over-year budget comparison.

**Lowering Water Supply Costs**

Detachment and high levels of local supply availability are driving water supply costs down by 64%.

The 12.4% increase in debt service is due to the addition of the Water Revenue Bonds. Overall, the 10.6% decrease in the Operating Budget is being driven by a decrease in the cost of wholesale water due to the District’s detachment from SDCWA.

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

Description	FY 2022-23	FY 2023-24			FY 2024-25	Budget to
	Actual	Original Budget	Amended Budget	Projected	Budget	Budget Change (%)
Water Supply Costs	\$ 10,716,859	\$ 9,558,078	\$ 9,558,078	\$ 6,794,693	\$ 3,433,211	-64.1%
Debt Service	3,822,936	5,463,081	5,463,081	5,463,081	6,141,364	12.4%
Total Labor*	6,500,369	6,813,579	7,069,662	7,069,662	7,318,240	3.5%
Total Non-Labor**	6,172,082	7,625,467	8,158,253 (1)	7,879,295 (1)	9,258,491	13.5%
<b>Operating Total</b>	<b>\$ 27,212,247</b>	<b>\$ 29,460,206</b>	<b>\$ 30,249,075</b>	<b>\$ 27,206,730</b>	<b>\$ 26,151,306</b>	<b>-13.5%</b>
Benefits Expenses	4,279,809	4,400,781	4,400,781	4,400,781	4,835,681	9.9%
<b>Total Services</b>	<b>\$ 31,492,056</b>	<b>\$ 33,860,987</b>	<b>\$ 34,649,856</b>	<b>\$ 31,607,511</b>	<b>\$ 30,986,987</b>	<b>-10.6%</b>
<b>Operating Budget</b>						

\* Total Labor does not include District’s Benefits

\*\* Total Non-Labor includes \$542,367 for Community Benefit Program in FY 2024-25

(1) Does not include \$8,506,750 Detachment Fee



Table 2 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. The 26% reduction in the average cost of water production in Fiscal Year 2024-25 is due savings from detachment and the amount of low cost local water supply available to the District. Table 3 shows regional wholesale water rates against which the District’s average cost of water production can be compared.

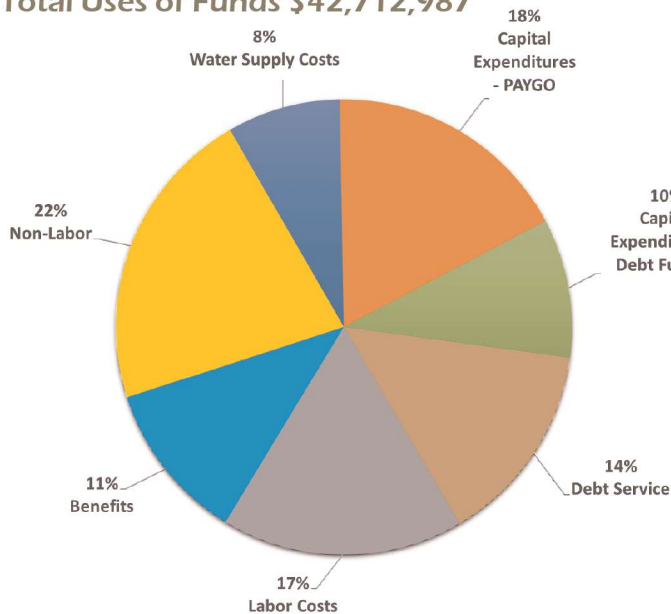
Chart 2 shows the breakdown of the District’s total use of funds. Labor and benefits represent 28% of the District’s budgeted uses of funds. Seventy-two percent of the District’s uses of funds are for non-labor related expenditures. Non-labor costs represent the District’s single largest use of funds category. This Budget cycle, the share of Non-Labor uses of funds is elevated due to the cost to treat the high volume of local supply water that will be delivered to the District.

**Table #2 - District’s Cost of Water Production**

Description	FY 2023-24		FY 2024-25		Projection to Budget Change(%)
	Acre Feet	Projection	Acre Feet	Budget	
<b>Water Supply Costs</b>	SDCWA Wholesale Costs	2,080 \$ 3,937,505	0 \$ -	-100%	
	EMWD Wholesale Costs	424 862,141	679 772,590	-10%	
	MWD Pass Through Charges	N/A 512,489	N/A 537,156	5%	
	Camp Pendleton SMR Water Delivery Costs	4,523 1,185,026	5,990 1,600,288	35%	
	Red Mountain Inventory Withdrawal	0 -	899 240,177	100%	
	System Pumping	N/A 297,532	N/A 283,000	-5%	
<b>Subtotal Water Supply Costs</b>		<b>\$ 6,794,693</b>	<b>\$ 3,433,211</b>	<b>-49%</b>	
<b>O&amp;M Costs</b>	Water Treatment Division Labor & Benefits Budget*	4,523 749,451	5,990 910,834	22%	
	Water Treatment Division Non-Labor Budget	4,523 1,550,860	5,990 2,280,088	47%	
	SMRCUP Debt	N/A 2,814,795	N/A 2,814,795	0%	
<b>Subtotal O&amp;M Costs</b>		<b>5,115,107</b>	<b>6,005,718</b>	<b>17%</b>	
<b>Total Cost of Water Production</b>		<b>\$11,909,799</b>	<b>\$ 9,438,929</b>	<b>-21%</b>	
Subtotal Acre Feet Purchased	7,027		7,568	8%	
<b>Total Cost of Water Production (\$/AF)</b>		<b>\$ 1,695</b>	<b>\$ 1,247</b>	<b>-26%</b>	

\* Treatment Division Labor & Benefits include \$264,658 and \$362,717 in benefits for FY 2024 and FY 2025 respectively.

**Chart #2 - Uses of Funds Fiscal Year 2024-25**  
Total Uses of Funds \$42,712,987



**Table #3 - Regional Wholesale Water Rates (\$/AF)**

Wholesale Supplier	CY 2024	CY 2025
EMWD <sup>1</sup>	1,267	1,406
SDCWA <sup>2</sup>	1,997	2,436 <sup>3</sup>

- (1) Actual and projected unit cost from EMWD.
- (2) Estimated unit cost if FPU D was still attached to SDCWA.
- (3) Based upon 22% increase in CY 2025.

The District’s average Cost of Water Production is below the Regional Wholesale Water Rates.

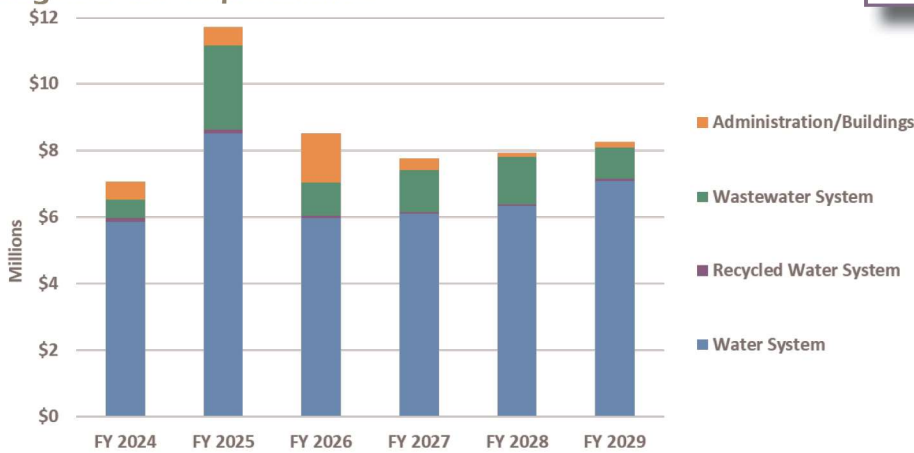
Capital Budget

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 3 shows the annual CIP expenditures by project type. The Capital Budget for Fiscal Year 2024-25 is \$11.7 million. The budgeted amount for FY 2025 is above average due to the \$2 million carryover from FY 2024 for projects that were planned but not executed in FY 2023-24.

**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.

**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 2024-25 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 financial position allowing inflationary level rate and charge increases in spite of the Water Services facing double digit wholesale water rate increases.

As shown in the financial projections in Table 4, a budgeted reserve deposit of \$3.6 million is planned for Fiscal Year 2024-25 followed by additional reserve deposits replenishing the reserves used to pay the Detachment Fee and bring reserves back in line with the reserve target established by the Board. Chart 4 shows the District's reserve balances are expected to remain relatively stable and trend towards the target fund levels. The chart also shows the 2024 Bond Proceeds balance as it is drawdown to fund Water CIP. The District is projected to maintain a debt service coverage level in excess of its required 1.2x.

**Chart #4 - District's Fund Balances and Target Balance Level**

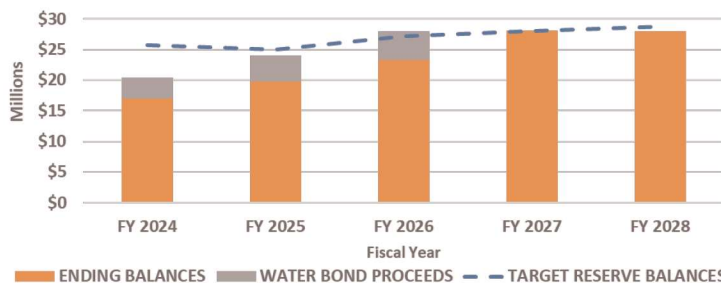


Table #4 - Fallbrook Public Utility District's Financial Summary

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
<b>Revenues</b>					
<b>Revenue from Rates</b>					
Water	\$ 23,927,732	\$ 25,536,172	\$ 26,625,210	\$ 27,955,861	\$ 29,351,998
Recycled Water	1,300,047	1,332,131	1,365,039	1,398,983	1,433,840
Wastewater	7,188,621	7,480,829	7,776,732	8,076,396	8,316,439
<b>Subtotal Revenue from Rates</b>	<b>\$ 32,416,401</b>	<b>\$ 34,349,132</b>	<b>\$ 35,766,981</b>	<b>\$ 37,431,240</b>	<b>\$ 39,102,277</b>
<b>Other Operating Revenue Subtotal</b>	<b>\$ 691,946</b>	<b>\$ 375,000</b>	<b>\$ 375,000</b>	<b>\$ 375,000</b>	<b>\$ 375,000</b>
<b>Non-Operating Revenue</b>	<b>\$ 6,928,630</b>	<b>\$ 7,388,181</b>	<b>\$ 7,497,028</b>	<b>\$ 7,814,640</b>	<b>\$ 7,719,456</b>
<b>Total Revenues</b>	<b>\$ 40,036,977</b>	<b>\$ 42,112,313</b>	<b>\$ 43,639,009</b>	<b>\$ 45,620,880</b>	<b>\$ 47,196,733</b>
<b>Total Operating Expenses</b>					
	\$ 25,877,388	\$ 24,299,623	\$ 28,833,311	\$ 30,396,610	\$ 31,942,171
<b>Net Operating Revenues</b>	<b>\$ 14,159,589</b>	<b>\$ 17,812,690</b>	<b>\$ 14,805,698</b>	<b>\$ 15,224,270</b>	<b>\$ 15,254,562</b>
<b>Total Non-Operating Expenses</b>	<b>\$ 8,773,791</b>	<b>\$ 546,000</b>	<b>\$ 546,000</b>	<b>\$ 546,000</b>	<b>\$ 546,000</b>
<b>Total Debt Service</b>	<b>\$ 5,463,081</b>	<b>\$ 6,141,364</b>	<b>\$ 6,137,994</b>	<b>\$ 6,139,425</b>	<b>\$ 5,878,311</b>
<b>Total Capital Expenditures</b>	<b>\$ 7,055,478</b>	<b>\$ 11,726,000</b>	<b>\$ 8,842,600</b>	<b>\$ 8,385,644</b>	<b>\$ 8,920,172</b>
<b>Total Expenditures</b>	<b>\$ 47,169,739</b>	<b>\$ 42,712,987</b>	<b>\$ 44,359,905</b>	<b>\$ 45,467,678</b>	<b>\$ 47,286,654</b>
<b>Water Revenue Bond Proceeds</b>	<b>\$ 3,376,538</b>	<b>\$ 4,207,500</b>	<b>\$ 4,690,000</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Net Position*</b>	<b>\$ (3,756,224)</b>	<b>\$ 3,606,826</b>	<b>\$ 3,969,104</b>	<b>\$ 153,202</b>	<b>\$ (89,921)</b>
<i>Beginning Balances</i>	\$ 24,135,872	\$ 20,379,648	\$ 23,986,474	\$ 27,955,578	\$ 28,108,779
<i>Ending Balances</i>	\$ 20,379,648	\$ 23,986,474	\$ 27,955,578	\$ 28,108,779	\$ 28,018,858

\* Change in net position is Total Revenues minus Total Expenditures plus Water Revenue Bond Proceeds.

**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 this is the first year of implementation, there is not much 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	Department	Key Performance Indicator	Target	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Estimated	Target Met
Water Supply	Water	Cost/Acre Foot of SMGTP Product Water Supply	Below \$1,500/AF	\$1,640/AF <sup>1</sup>	\$1,062/AF	\$836/AF	Yes
Infrastructure	Wastewater	Cost/MGD of Wastewater Influent Flows	Below \$3,500/MGD	\$3,497/MGD	\$3,146/MGD	\$3,168/MGD	Yes
Fiscal Management	Finance	Debt Coverage	>1.20	2.05	4.19	2.59	Yes
Fiscal Management	Finance	Days Cash on hand	90 days or greater	109 days	113 days	100 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 2024-25 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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**July 01, 2023**

*Christopher P. Movill*

Executive Director

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