



Analysis by Yung Ouyang

SUMMARY

Key Decisions for Council

None. The Bureau of Environmental Services (BES) is requesting adjustments that are typical for the Fall BMP, including truing-up fund beginning balances, carryover of funds for work not completed last year, and technical adjustments transferring budget between various expense line items. These adjustments do not impact rates or contingency resources.

Budget & Fiscal Monitoring: COVID-19 Had a Minimal Impact on BES in FY 2019-20

- With the exception of System Development Charges (SDCs), the COVID-19 pandemic had a minimal impact on the bureau's revenues in FY 2019-20. Utility charge revenues were only obviously impacted in June, when the under-collection was ten percent (10%) below plan, and the bureau ended the year collecting 99% of budget. However, SDC revenues slowed dramatically due to the pandemic shutdowns, with BES only collecting 76%, or \$6.7 million less than budgeted, reflecting a significant cooling of the current construction-sector economy. Property owners connecting to the sewer system pay SDCs to reimburse ratepayers for previously funding sewer system improvements required for growth associated with new development, and BES uses these fees to pay for debt service. The bureau is actively monitoring the pandemic's effects on revenues and expenses in FY 2020-21 and will make adjustments, if necessary, to its current-year budget in the Spring BMP, as well as to its five-year forecast for future year budget development (see Additional Analysis below).
- Despite the establishment of the Project Management Office (PMO) in FY 2019-20, capital project delivery remains an issue, with the bureau only spending 77% of its Capital Improvement Plan (CIP) budget last year. Many projects were delayed for various reasons, including a number of projects that were put on hold so that the bureau can focus on the Secondary Treatment Expansion Program (STEP). COVID-19 had a minimal impact on capital project delivery in FY 2019-20 primarily because many of the projects had already begun before the pandemic hit. However, it should be noted that the PMO is still in the early stages of implementation, and BES continues to refine its processes and expand the number of projects managed by it in FY 2020-21.
- The impacts of COVID-19 resulted in reduced expenditures by BES in the Sewer System Operating Fund, leading to a higher than projected ending fund balance. In addition, due to the potential impacts of COVID, the bureau took a conservative approach and held back transfers to the Sewer System Construction Fund to allow for the potential of a greater cash need in the Operating Fund. Those impacts did not materialize as expected resulting in a higher balance (almost \$22 million is

being appropriated in the Operating Fund's beginning balance in this Fall BMP).

ADDITIONAL ANALYSIS

Revenue Assumption Revisions

BES built its FY 2020-21 budget assuming rate revenues would underperform pre-pandemic projections by 10% per month through October 2020, followed by a slow recovery of 1% per month until back to pre-pandemic projections beginning August 2021. Currently, the bureau believes that the pandemic's impacts will continue beyond that assumption. As a result, its projections have been updated to assume rate revenues will underperform pre-pandemic projections by 10% through February 2021 and slowly improve by 1% per month through June 2021. Additionally, BES assumes rate revenues will continue at a level of 5% below pre-pandemic levels for all of FY 2021-22, with a slow improvement of 1% per month into early FY 2022-23. These assumptions equate to an additional revenue decline of \$15-\$20 million over 18 months. In response to these updated revenue assumptions, the bureau has no plans to add new positions, unless offset by a corresponding reduction, either during the current year or next. However, BES notes that the projected annual rate increases of 3.15%, presented to Council and assumed in the out years of its five-year forecast, are needed to prevent layoffs and other reductions that may impact regulatory compliance. The bureau believes that keeping this "status quo" maximizes flexibility as the pandemic goes away.

SUPPLEMENTAL BUDGET CHANGES TO ALL FUNDS

BES's budget is contained in the following six funds:

- Sewer System Operating Fund
- Sewer System Construction Fund
- Sewer System Debt Redemption Fund
- Sewer System Rate Stabilization Fund
- Environmental Remediation Fund
- Grants Fund

	Current Revised Budget	Bureau Requested Changes	CBO Recommended Changes	Total Recommended Revised Budget
Resources				
Beginning Fund Balance	\$ 266,273,196	\$ 43,541,845	\$ -	\$ 309,815,041
Licenses & Permits	1,345,000	-	-	1,345,000
Charges for Services	364,568,950	183,738	-	364,752,688
Intergovernmental	987,000	-	-	987,000
Interagency Revenue	2,267,798	-	-	2,267,798
Fund Transfers - Revenue	413,648,000	12,400,000	-	426,048,000
Bond & Note Proceeds	145,000,000	-	-	145,000,000
Miscellaneous	7,278,500			7,278,500
Total Resources	\$1,201,368,444	\$56,125,583	\$0	\$1,257,494,027
Requirements				
Personnel	\$ 89,148,886	\$ -	\$ -	\$ 89,148,886
External Materials and Services	100,399,385	2,506,746	-	102,906,131
Internal Materials and Services	53,300,309	(7,861)	-	53,292,448
Capital Outlay	108,909,488	15,870,545	-	124,780,033
Debt Service	172,726,781	(50,000)	-	172,676,781
Debt Service Reserves	36,246,056	3,062,172	-	39,308,228
Fund Transfers - Expense	416,845,247	12,400,000	-	429,245,247
Contingency	223,792,292	22,343,981	-	246,136,273
Total Requirements	\$1,201,368,444	\$56,125,583	\$0	\$1,257,494,027

SUPPLEMENTAL BUDGET CHANGES TO THE SEWER SYSTEM OPERATING FUND

The Sewer System Operating Fund is BES's primary operating fund.

	Current Revised Budget	Bureau Requested Changes	CBO Recommended Changes	Total Recommended Revised Budget
Resources				
Beginning Fund Balance	\$ 75,180,000	\$ 21,774,944	\$ -	\$ 96,954,944
Licenses & Permits	1,345,000	-	-	1,345,000
Charges for Services	356,944,300	183,738	-	357,128,038
Intergovernmental	220,000	-	-	220,000
Interagency Revenue	1,809,646	-	-	1,809,646
Fund Transfers - Revenue	196,683,000	12,400,000	-	209,083,000
Miscellaneous	4,378,000	-	-	4,378,000
Total Resources	\$636,559,946	\$34,358,682	\$0	\$670,918,628
Requirements				
Personnel	\$ 88,516,717	\$ -	\$ -	\$ 88,516,717
External Materials and Services	90,352,492	2,456,746	-	92,809,238
Internal Materials and Services	51,904,808	(7,861)	-	51,896,947
Capital Outlay	108,259,488	15,870,545	-	124,130,033
Debt Service	4,152,797	-	-	4,152,797
Debt Service Reserves	180,000	-	-	180,000
Fund Transfers - Expense	218,991,067	-	-	218,991,067
Contingency	74,202,577	16,039,252	-	90,241,829
Total Requirements	\$636,559,946	\$34,358,682	\$0	\$670,918,628