

**Agenda Item:** {{section.number}}A

June 1, 2022

**TO: THE BOARD OF DIRECTORS**

Brenda Dennstedt, President  
Gracie Torres, Vice President  
Mike Gardner, Secretary-Treasurer  
Fauzia Rizvi  
Laura Roughton

**FROM:** Craig D. Miller, P.E., General Manager

**CONSIDER ADOPTION OF RESOLUTION 3226 APPROVING THE GENERAL MANAGER'S OPERATING BUDGET FOR FISCAL YEARS 2022-2023 AND 2023-2024, APPROVAL OF THE JOB CLASSIFICATION PLAN AND SALARY GRADES TABLE, AND APPROVAL OF THE CAPITAL IMPROVEMENT AND FACILITIES PLAN FOR FISCAL YEARS 2022-2023 AND 2023-2024**

**RECOMMENDATION:**

Staff recommends the Board of Directors:

1. Adopt Resolution 3226 approving the General Manager's Operating Budget for Fiscal Years 2022-2023 and 2023-2024, and authorize staff to spend budgeted amounts in accordance with the requirements and authority levels previously established by the Board;
2. Approve the amended Job Classification Plan and Salary Grades Table in accordance with Resolution 2902, Job Classification Plan and Salary Grades Table, Section 7, effective July 1, 2020; and
3. Approve the Capital Improvement and Facilities Plan for Fiscal Years 2022-2023 and 2023-2024.

**EXECUTIVE SUMMARY:**

This Board letter is presented in three sections: the Operating Budget, the Job Classification and Salary Grades table, and the Capital Improvement and Facilities Plan.

Western Municipal Water District's (Western) Operating Budget is presented again in a two-year format with adoption by resolution. The resolution formally establishes spending authority for each fiscal year and provides specific authority for the General Manager regarding labor, budget, carryovers, and demand-based exclusions to spending authority.

With regard to authorized positions, staff is recommending five (5) new full-time positions be added to the number of authorized positions for a total full-time employee count of 162. The proposed Job Classification Plan and Salary Grades table has been amended in accordance with the provisions stated in the Memorandum of Understanding (classified employees) and in the Confirmation of Understanding (non-classified employees). The amendments to the salary grade ranges also reflect a 4% cost of living adjustment (COLA).

The objective of the Capital Improvement and Facilities Plan (CIFP) process is to develop a forward-looking, comprehensive report that provides summary information about necessary capital project investments in the coming years. The CIFP highlights Western's projects by describing each project's linkage to Western's Strategic Priorities, the project's necessity, costs and funding source, as well as the implementation timeline.

Staff is proposing one change to the capital planning process this year. Staff desires to create a Risk Mitigation program. Implementing this change is intended to increase the efficiency of capital planning and reduce staff labor time associated with capital projects without compromising fiscal integrity or transparency.

The proposed Fiscal Year 2022-2023 CIFP spending includes projected **net total** expenditures of \$17,629,269 from Western cash reserves in the first year. The proposed Fiscal Year 2023-2024 spending includes projected **net total** expenditures of \$15,923,905 from Western cash reserves in the second year.

**BUDGET IMPACT:**

Adoption of the biennial operating budget provides the General Manager with \$157.7 million in spending authority for Fiscal Year 2022-2023, and \$166.4 million for Fiscal Year 2023-2024.

Adoption by the Board of the two-year CIFP allows for projected spending of \$37,505,764 (not including funding offsets) for Fiscal Year 2022-2023, and \$36,781,845 (not including funding offsets) for Fiscal Year 2023-2024. In addition, CIFP adoption will provide staff, under the General Manager's direction, with the following:

1. Spending authority for the projects listed in each of the two fiscal years with a total annual cost of less than \$100,000 not requiring a public works contract;
2. Authority to increase the Minor Capital Projects Program to \$1,000,000 per fiscal year; and
3. Authority to implement a new Risk Mitigation Program up to \$200,000 per fiscal year; and
4. A discretionary fund of \$300,000 each fiscal year to be expended on unanticipated capital projects in accordance with the requirements and authority levels established through the District's purchasing policy.

All projects not part of the Minor Capital Program and outlined in the attached listing with a public works project in excess of \$35,000 or a total cost of more than \$100,000 will be presented to the Board of Directors for individual project approvals.

**DETAIL:**

**SECTION I - FISCAL YEARS 2022-2023 and 2023-2024 OPERATING BUDGET**

As with all of Western's initiatives, it is staff's responsibility and duty to scrutinize projects and processes to be as efficient and effective as possible. Staff continuously take steps to reduce expenses and costs while addressing challenges related to water supply impacts, and economic conditions. Proactive planning enables Western to prudently manage resources and assets with accountability and transparency.

The Operating budget covers two separate fiscal years and is adopted by resolution. The resolution presents each fiscal year budget in an exhibit and indicates the total spending authority for each year. Since water demand, in particular, cannot be precisely forecasted due to uncontrollable variables such as customer demand and weather conditions, actual revenues and expenditures may vary significantly from the approved budget. The resolution excludes water purchases, power purchases, waste disposal costs paid to third party vendors, and contract services from the overall spending authority restrictions, in order to meet uncontrollable variables.

The resolution requires that expenditures must be within the approved spending limit. Specific provisions regarding the use and transfer of budgeted funds enable the General Manager to

carryover unexpended and uncommitted budgeted amounts from Fiscal Year 2022-2023 to Fiscal Year 2023-2024 and requires the General Manager to report any carryover amounts to the Board.

The two-year budget is a result of extensive work by the Finance Committee and staff. This budget supports the priorities and policies of the Board and Western's Strategic Plan. The budget is a tool for estimating and planning sources and uses of revenue, and is used as a control tool for managing financial resources. If external factors materialize in greater fluctuations than what have been incorporated into this budget, the financial impacts will be communicated to the Board so that additional action on the budget can be taken accordingly.

The Fiscal Years 2022-2023 and 2023-2024 budgets continue the effort of management to reduce costs. The major drivers of the two-year Operating Budget include: anticipated water demand from wholesale and retail customers, the cost of imported water and associated energy cost, waste disposal cost, system operating and preventative maintenance cost, debt service obligations, and costs for administration.

Exhibit A to the resolution presents the consolidated Fiscal Year (FY) 2022-2023 and FY 2023-2024 Operating Budget listed by functional elements. The budget is divided into three main areas: Operating Funds, Non-Operating Funds, and Transfers. Operating Funds represent operating revenues and expenses (sources and uses), such as water sales, water purchases and wastewater disposal, and result from exchange transactions associated with the principal activities of Western. Management and administration are also considered operating expenses. Other revenues and expenses not included in the above categories are presented as non-operating revenues and expenses (sources and uses). Transfers represent allocations to, or from funds, for asset replacement and debt service funding.

The overall Operating Budget is summarized as follows *(in millions)*:

	FY 2022-2023	FY 2023-2024
<b>Operating Funds</b>		
Sources of Operating Funds	\$ 136.4	\$ 144.8
Less Uses of Operating Funds	143.9	152.1
Net Operating Uses	\$ (7.5)	\$ (7.3)
<b>Non-Operating Funds</b>		
Sources of Non-Operating Funds	\$ 26.4	\$ 26.8
Less Uses of Non-Operating Funds	6.6	6.8
Net Non-Operating Sources	\$ 19.7	\$ 20.0
<b>Net Sources</b>	\$ 12.3	\$ 12.7
Transfers To Reserves	\$ 7.2	\$ 7.5
<b>Net Surplus/(Deficit)</b>	\$ 5.0	\$ 5.2

Note: Amounts in the schedule above are rounded which can affect total calculations.

Adopted as well as proposed water and wastewater rate adjustments are incorporated in the budget projections for all the enterprise functions including retail water, wastewater, Inland Empire Brine Line, desalter water, and wholesale water. Recently adopted Metropolitan Water District rate increases are also incorporated in the budget projections.

**SECTION II - CONSIDER APPROVAL OF JOB CLASSIFICATION PLAN AND SALARY GRADES TABLE AMENDMENT**

As a result of the negotiations that took place last year with the MOU and COU groups, a Cost of Living Adjustment (COLA) is guaranteed starting with the last pay period of June. The Cost of Living Adjustment is determined by the percentage change to the Consumer Price Index – U, for the Riverside-San Bernardino-Ontario area for the proceeding twelve (12) months ending in January. The contracts state the increase will be a minimum of 1% to a maximum of 4%. The percentage change of the Consumer Price Index – U for the Riverside-San Bernardino-Ontario area for the proceeding twelve (12) months ending in January was 8.6%. Therefore, the Cost of Living Adjustment applicable to all District employees shall be 4% effective at the beginning of

the last pay period of June.

Additionally, staff is recommending five (5) new full-time positions be added to the number of authorized positions for a total full-time employee count of 162. These position additions would take place over the course of the two year budget cycle. In the first budget year, staff recommends the addition of one (1) Operations Technician I/II/III/IV to the Water Quality division, one (1) Operations Technician I/II/III/IV to the Automation and Electrical Services division, and one (1) Engineer I/II/Senior to the Capital Improvement Projects (CIP) division. The new position within the Water Quality division is needed to assist with the newly added and planned facilities, including reservoir management systems (RMS), Sterling pump station, Cannon pump station, Magnolia intertie, and Murrieta wellhead treatment. In addition to these facilities, are the complexities associated with managing new water sources from Riverside Public Utilities and the Chino Desalter. In regards to the Automation and Electrical Services division, in addition to the new facilities listed above, additional staffing is needed to manage the implementation of the SCADA Master Plan, new security protocols to guard against cyber threats, increases in the number of meters, instrumentation and monitoring equipment requiring annual calibration, and to support the new asset management program with predictive thermography of aging equipment, guarding against catastrophic failures that may impact water service to customers. The new position within the Engineering division is needed to support the number of CIP projects that will be required within the budget cycle. With the additional Engineer the CIP division will be able to increase projects to twenty (20) projects per year. In the second budget year, staff recommends the addition of one (1) Strategic Communications Representative I/II/Senior and one (1) Customer Experience Representative I/II/Senior. These two positions are requested to support increased outreach and customer experience demands, as directed through the Board-adopted 2022-2025 Strategic Priorities and Western's Strategic Communications Plan.

### **SECTION III - CONSIDER APPROVAL OF FISCAL YEARS 2022-2023 AND 2023-2024 CAPITAL IMPROVEMENT AND FACILITIES PLAN (CIFP)**

The CIFP includes proposed Fiscal Year 2022-2023 projected expenditures of \$40,166,483, and funding offsets for select projects of \$22,537,214, which results in a net Fiscal Year 2022-2023 total of \$17,629,269 in Western cash reserve expenditures necessary to advance the identified projects. The CIFP also includes proposed Fiscal Year 2023-2024 projected expenditures of \$36,781,845, and funding offsets for select projects of \$20,857,940 which result in a net Fiscal Year 2023-2024 total of \$15,923,905 in Western cash reserve expenditures necessary to advance the identified projects in the second year. Funding offsets are derived from Federal and State grant funding, and third party agreements with commitments for specific projects, such as the Enhanced and Active Recharge Projects in the San Bernardino Basin Area.

Staff thoroughly reviewed and prioritized the projects listed in the attached listing through a collaborative, multi-departmental process. Projects were prioritized following careful consideration of current asset condition, availability of funding, regulatory requirements, safety, and consequence of failure, just to list a few. The goal of the team's collaborative approach to project selection and ranking is to provide the Board with the confidence to approve the individual projects as they are both considered collectively and brought individually before the Board. In addition to a review of the need and timing of these specific projects, staff has reviewed the individual project workloads, as well as the combined workload of the entire proposed plan, to ensure that we have the workforce to complete the projects listed in a timely manner.

The project listing for Fiscal Year 2022-2023 also includes the projects and associated funding obligations related to Western's Joint Powers Authority partnerships in the Chino Desalter Authority (CDA), the Santa Rosa Regional Resources Authority (SRRRA) and the Western Riverside County Regional Wastewater Authority (WRCRWA). The complete listing also includes known projects in the three-years following Fiscal Year 2023-2024. Although these future year projects were evaluated in the current process, they will be reevaluated in advance of the next two-year CIP cycle to ensure that Western remains focused on the most important projects.

In addition to the comprehensive listing attached to this letter, the planned two-year expenditures have been categorized below into Western's funding areas: Operating System Improvement and Asset Replacement projects.

<b>Operating System Improvement Funds:</b>	<b>Gross Total Amounts</b>	
	<b>FY 22-23</b>	<b>FY 23-24</b>
<b>Name (Fund #'s)</b>		
General District Activities (100, 106, 107, 108)	\$6,980,000	\$5,350,012
Fleet Expansion (144)	\$0	\$800,000
Operations Facilities Improvement and Equipment (166, 167)	\$540,000	\$100,000
Riverside Potable Water (200, 204, 220, 224)	\$7,303,500	\$9,803,500
Riverside Non-Potable Water (214)	\$2,527,597	\$4,000,000
Murrieta Potable Water (230, 234)	\$440,000	\$1,370,000
La Sierra Collections System Improvements (314) (flows to WRCRWA)	\$3,991,945	\$0

Western Water Recycling Facility (WWRF) (320, 324, 330, 334, 344)	\$2,166,667	\$4,333,333
Murrieta Wastewater (354)	\$0	\$1,500,000
Arlington Desalter (410,414)	\$0	\$0
Chino Desalter (424)	\$500,000	\$0
La Sierra Pipeline/Sterling Pump Station (434)	\$0	\$0

<b>Asset Replacement Funds:</b>	<b>Gross Total Amount</b>	
	<b>FY 22-23</b>	<b>FY 23-24</b>
<b>Name (Fund #'s)</b>		
General District Asset Replacement (105)	\$3,900,000	\$1,000,000
Vehicle Asset Replacement (145)	\$0	\$250,000
Operations Asset Replacement (165)	\$600,000	\$600,000
Riverside Potable Asset Replacement (205)	\$9,500,000	\$6,000,000
Riverside Non-potable Asset Replacement (215)	\$0	\$100,000
Murrieta Asset Replacement (235)	\$0	\$200,000
La Sierra Collections Asset Replacement (315) (flows to WRCRWA)	\$176,372	\$0
WWRF Asset Replacement (325, 335, 345)	\$450,000	\$175,000
Murrieta Wastewater Asset Replacement (355)	\$416,510	\$0
Mills Gravity Line Major Maintenance (407)	\$0	\$1,200,000
Arlington Desalter Asset Replacement (415)	\$450,000	\$0
Chino Desalter Asset Replacement (425)	\$223,892	\$0

Minor Capital Projects:

Staff believes there are more efficient and cost-conscious ways to complete routine asset replacements without compromising fiscal integrity. In previous years, regardless of size, staff presented all capital projects individually under the general CIPF project category. This included smaller purchases such as valve, pump, and motor replacements. In all cases, the costs of these items are within the general manager's Board-approved purchasing authority.

In Fiscal Year 2020-21, the Board approved a Minor Capital Projects Program for \$750,000 per fiscal year, to be purposefully allocated to the minor replacement, refurbishment, or upgrade of Western's assets. This is an effective capital budget strategy, especially for Western's many routine projects. These smaller, but important projects will be prioritized based upon on-going



condition assessment protocols. In cases where an asset fails in advance of its expected lifetime, immediate need will escalate priority of a minor project. Establishing a limited Minor Capital Projects fund will allow smaller projects to be performed quickly and efficiently based on business need and as prioritized by Western's trained professionals. Minor capital projects are defined as efforts that will refurbish, replace, or upgrade assets less than or equal to \$100,000, on a project-by-project basis. A significant number of these projects are small assets required to keep the systems operational, safe, and well maintained. Similarly, these projects may allow staff to bring tools, equipment, or services in-house to increase efficiency and reduce costs.

Based on the success of the Minor Capital Project Program during the first two fiscal years, Staff is requesting to increase the monies allocated to the program from \$750,000 per fiscal year to \$1 million per fiscal year beginning in Fiscal Year 2022-2023. All the above-mentioned procedures and requirements will still apply. Staff is also requesting to broaden the list of acceptable projects as indicated below.

Examples of projects include, but are not limited to:

- ✓ Replacement or refurbishment of various pumps and motors
- ✓ Re-coating or replacement of the asphalt at reservoirs and pump station sites
- ✓ Valve and meter replacements or additions
- ✓ Vault-hatch lid replacements
- ✓ Variable frequency drive (VFD) replacements
- ✓ Water quality analyzer replacements
- ✓ Computer software or hardware
- ✓ Tools and equipment
- ✓ Minor facility repairs

Individual projects meeting the criteria may be authorized under Western's current purchasing policy. Staff will provide an annual update to the Finance Committee for projects completed under the Minor Capital Projects Program.

The following activities would be excluded from the program:

- Planning activities, research, or studies
- Design activities that would lead to additional expenses
- Land or facility acquisition
- Motor vehicles

Risk Mitigation Program:

In 2020, Western developed a Risk and Resilience Assessment (RRA) and an Emergency Response Plan (ERP) to assess the District’s water system in order to identify critical assets and processes that may be vulnerable to human and natural hazards, and to identify measures that can be taken to reduce risk and enhance resilience from service disruption for the benefit of customers. These plans address Western’s risks associated with potential hazards, characterize threats, and analyze the likelihood and consequences of the associated risks. Evaluation of the identified risks to establish priorities and develop mitigation measures was also included. The RRA, in conjunction with the associated ERP, charts a course for water system resilience. In compliance with the America’s Water Infrastructure Act, Western is required to update these plans every five years.

Risk Mitigation is a key phase in the emergency management cycle that includes planning and developing procedures that can be applied to all aspects of Western’s operations, resources, and assets. Risk Mitigation involves measures taken to eliminate or reduce hazards, in order to prevent injuries and/or damages from future disasters. It represents a vital link in the emergency management cycle, as it occurs both before and after an emergency or disaster. As necessary, mitigation measures are implemented to reduce the risks associated with the identified hazards.

Accordingly, Staff has incorporated two important changes to the CIFP for Fiscal Year 2022-2023 and subsequent years. First, we have added a “Risk and Resilience” criterion to our project rating structure. This criterion allows staff to rate whether or not a proposed capital project has a risk mitigation component for either safety, security, or emergency management.

Criteria	3 Rating	2 Rating	1 Rating
Risk & Resilience (Safety, Security or Emergency Preparedness)	Supports Western in securing resilience of its systems and/or assets; Addresses and mitigates an <b>immediate</b> risk.	Addresses but may not completely mitigate a <b>potential</b> risk.	Does not address or mitigate a known risk.

Second, to ensure that capital projects designed to mitigate either safety, security, or emergency management risks are completed timely and efficiently, without compromising fiscal integrity, Staff has proposed \$200,000 per fiscal year, not to exceed a total of \$400,000 in a two-year budget cycle be allocated to the Risk Mitigation Program. Like the Minor Capital Projects Program, Staff will provide an annual report to the Finance Committee of projects completed under the Risk Mitigation Program.

The Risk Mitigation Program will ensure that Western consistently promotes and completes projects for not only the resilience of its water supply, but also the resilience of its staff, resources, and infrastructure. Projects for consideration under the Risk Mitigation Program will include those that are less than \$100,000 in cost, can be implemented quickly, and provide the perceived greatest value in reducing Western's risk. Larger projects, those in excess of \$100,000, will be listed separately in CIFP and board authorization will be sought prior to proceeding with the project. Projects considered under the Risk Mitigation Program may be identified as part of the RRA or ERP or throughout normal business activities and assessments. Such projects may include, but are not limited to: Site Cameras, Site Fencing, Intrusion Detection Switches, etc.

Reason for Action:

The biennial operating budget provides the General Manager with spending authority to carry out Western's mission to provide water supply, wastewater disposal and water resource management to the public in a safe, reliable, environmentally sensitive and financially responsible manner. The Capital Improvement and Facilities Plan identifies Western's capital project priorities for the next two years, while also giving a current forecast of the capital projects planned through June of 2027. The CIFP provides Board guidance to Western staff for workload and project planning.

Solution:

Adopt the General Manager's Operating Budget and Capital Improvement and Facilities Plan for Fiscal Years 2022-2023 and 2023-2024, and approve the Job Classification Plan and Salary Grades table.

**STRATEGIC PRIORITIES REFERENCE:**

Board adoption of the biennial Operating Budget, the updated Job Classification Plan and Salary Grades table, and the two-year CIFP is in direct alignment with Western's 2022-2025 Strategic Priorities and 2025 Aspirational Targets. Timely adoption of these items is not only part of Western's routine business activities, it secures an elite workforce to ensure the delivery superior service, water resiliency, and wastewater dependability. Adoption also illustrates the District's sound financial stewardship in a very transparent manner.

**LEGAL COUNSEL REVIEW:**

Not applicable.

Regular Board Meeting

June 1, 2022

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Respectfully submitted by:

Craig D. Miller, P.E., General Manager

Attachments:

1. Fiscal Year 2022-2023 Consolidated Operating Budget
2. Fiscal Year 2023-2024 Consolidated Operating Budget
3. Job Classification Plan and Salary Grade Table – Redlined Version
4. Capital Improvement and Facility Plan Listing
5. Resolution 3226
6. Budget Adoption Presentation