CITY COUNCIL AGENDA
AUGUST 18, 2026

STAFF REPORT
BUSINESS
ITEM NUMBER: 10.

TITLE
Utility Finance Update

RECOMMENDATION
Receive and file the Utility Finance Update presentation and provide any desired direction to staff regarding utility enterprise operations and financial planning.

CONTACT
Jemelyn Cruz, Finance Director

BACKGROUND & ANALYSIS
The City completed comprehensive enterprise rate studies for water, wastewater, and recycled water services in March 2024. The study assumed rate adjustments beginning in April 2024 and continuing annually thereafter. The rates were adopted by Council on April 2, 2024, and implementation commenced in January 2025.

The purpose of this annual review is to evaluate financial performance against rate study assumptions and assess the adequacy of reserves and long-term financial stability for each utility enterprise.

Wastewater Operations

The Wastewater Operations Fund has accumulated fund balance over time due to lower operating expenditures and the deferral of capital improvement projects prior to the rate study.

Revenue Analysis

Actual revenues have remained below rate study projections for all reviewed fiscal years.

Fiscal Year	Rate Study Revenue	Actual/Estimated Revenue	Variance
FY 2023-24	$5.89 million	$5.36 million	($0.54 million)
FY 2024-25	$7.17 million	$5.99 million	($1.18 million)
FY 2025-26	$8.42 million	$6.79 million	($1.63 million)

Revenue shortfalls are largely attributable to delayed implementation of the approved rate adjustments and the loss of a significant utility user. The estimated impacts include approximately $630,000 in FY 2023-24, $961,000 in FY 2024-25, and approximately $1.5 million in Fy 2025-26 due to implementation timing, with additional impacts form reduced customer demand.

Expenditure Analysis

Although revenues have underperformed projects, expenditures have generally remained below expectations.

For FY 2023-24, expenses were approximately $3.3 million lower than projected, driven by deferred capital projects and savings in salaries, contractual services and operations. Expenses in FY 2024-25 and FY 2025-26 have tracked closely with rate study assumptions.

Cash and Reserve Position

Despite recent operating deficits, the Wastewater Operations maintains strong cash reserves.

As of FY 2025-26:

- Operating Reserve: $1.681 million
- Capital Reserve: $1.060 million
- Unrestricted balance: $1.878 million
- Total Cash: $4.619 million

Recycled Water Operations

The City provided recycled water service since 2010. The Recycled Water Enterprise Funds were established in FY 2020-21 to separately account for operations and maintenance activities and support the goal of becoming a self-sustaining enterprise.

Financial Performance

The Recycled Water Fund continues to experience operating deficits; however, the gap between revenues and expenditures is narrowing.

Fiscal Year	Revenue	Expense	Surplus/(Deficit)
FY 2023-24	$206,974	$1.116 million	($909,090)
FY 2024-25	$314,442	$1.110 million	($795,210)
FY 2025-26	$560,131	$1.138 million	($578,259)

Revenues have underperformed rate study projections due primarily to delayed implementation of approved rate adjustments. The estimated impacts of delayed implementation were approximately $129,000 in FY 2023-24, $282,000 in FY 2024-25, and $326,000 in FY 2025-26.

Fund Balance

The fund's balance remains negative and is significantly below rate study assumptions:

Fiscal Year	Rate Study Projection	Actual
FY 2023-24	$160,693	($448,813)
FY 2024-25	($59,181)	($1,244,023)
FY 2025-26	($275,940)	($1,822,282)

Staff will continue monitoring expenditures and evaluating measures necessary to achieve long-term financial sustainability.

Water Operations

The previous water rate study was completed in 2017. Prior to the current rate study, the Water Operations Fund accumulated significant cash reserves due to lower-than-anticipated capital improvement contributions. The current rate study anticipated use of those accumulated reserves to support planned capital improvements.

Revenue Analysis

Water revenues have generally performed close to projections, despite implementation delays and the loss of a major customer.

Fiscal Year	Rate Study Revenue	Actual/Estimated Revenue
FY 2023-24	$10.46 million	$10.59 million
FY 2024-25	$11.69 million	$11.35 million
FY 2025-26	$12.86 million	$10.57 million

A major utility customer that historically generated approximately $1 million annually ceased service in the middle of FY 2024-25, contributing to lower-than-projected revenues.

Expenditure Analysis

FY 2023-24 expenditures were approximately $5 million below projections due to deferred capital spending, lower water purchase costs, debt service savings, staffing vacancies, and reduced operating costs. FY 2025-26 expenditures were also approximately $2.3 million below rate study projects due to lower water purchase costs and reduced debt service obligations.

Fund Balance and Reserves

The Water Operations fund continues to maintain reserve balances significantly above minimum targets.

As of FY 2025-26:

- Operating Reserve: $2.002 million
- Capital Reserve: $2.261 million
- Unrestricted Balance: $6.007 million
- Total Cash: $1.270 million

The fund remains financially healthy and capable of meeting both operating and capital reserve requirements.

COUNCIL PRIORITY PROGRAMS AND PROJECTS

Infrastructure: "Develop and maintain infrastructure resources to support sustainable growth."

FISCAL IMPACT

This report is informational only and does not require any budget amendment or financial action. The analysis presented is intended to inform the City Council regarding the financial status of the Water, Wastewater, and Recycled Water Operating Funds and the implementation of the 2024 Utility Rate Study. The review indicates that the Water and Wastewater Operating Funds remain financially stable and capable of meeting established reserve targets. The Recycled Water Enterprise Fund continues to require ongoing monitoring to achieve long-term financial sustainability.

ENVIRONMENTAL REVIEW

N/A

COMMUNICATION

Level 0: No Further Public Communication Needed

ATTACHMENTS:

Utility Finance Update Presentation
2024 Enterprise Rate Studies