

FY 2025 Operations Budget





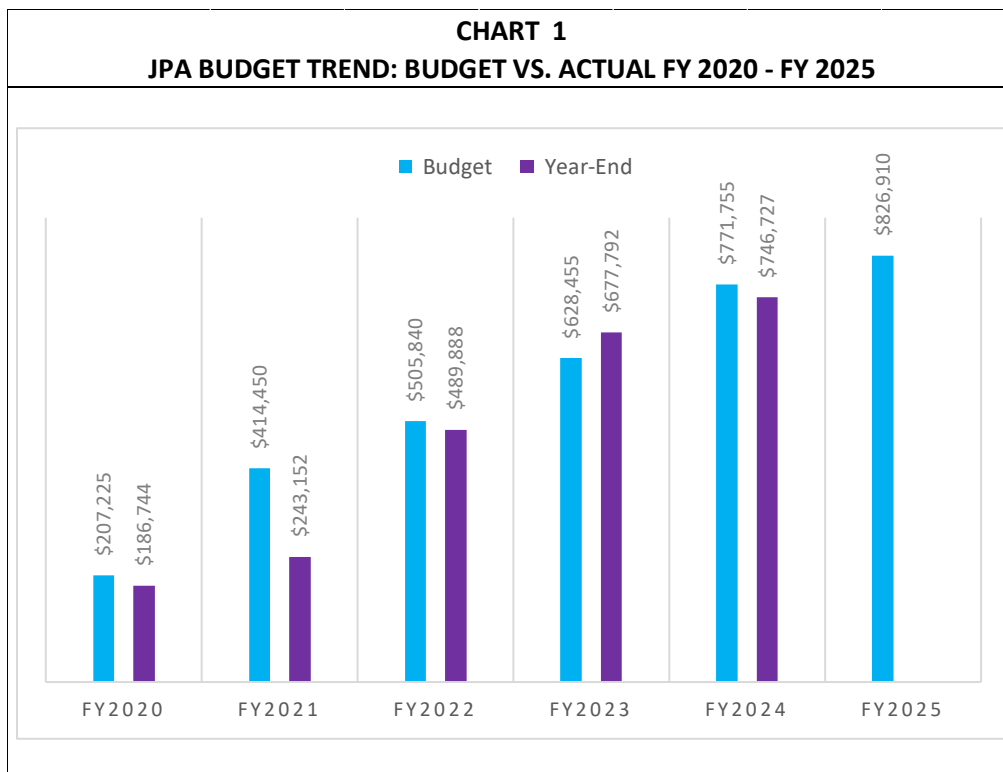
TO: Metro Wastewater JPA Board of Directors
FROM: Karyn L. Keze, Executive Director
DATE: June 6, 2024
RE: Agenda Item No. 7: FY 2025 JPA OPERATING BUDGET

The Metro Wastewater JPA has significantly evolved over the last five years, transitioning from observers to active participants in wastewater and, in some cases, water issues within the San Diego region, particularly affecting the San Diego Metro System and its members. Prior to FY 2020, the JPA's primary technical involvement was in the annual Exhibit E Audit review of Metro costs. During the first Amended and Restated Agreement (ARA) negotiations, engineering consultants were brought in to assist with technical negotiations regarding capital and operations costs for Phase 1 of the Pure Water Program.

With the beginning of drafting of the Second ARA (SARA), JPA consultants began partnering with City of San Diego PUD staff. This collaboration led to increased input and eventual drafting of SARA language and the creation of the new Metro billing system, the Functional Allocated Billing (FAB) system. During this period, JPA engineering and financial consultants were actively involved in negotiating cost allocations for Phase 1 construction projects. Initially, "shared" projects, such as the North City Expansion Project, with the City's water utility were accounted for as 100% Metro costs during planning phases. Through review and negotiations between City of San Diego and JPA consultants, over \$190 million in Phase 1 project costs, or an additional 16% of the total project costs, have now been allocated to San Diego's water utility.

As the consultants' roles have increased, so has the Metro JPA Operating Budget to fund the required shared engineering and financial services. JPA engineering consultants are now involved not only in Pure Water projects but also in planning capital projects for PS1, PS2, Pt. Loma, and compliance with the Regional Board's Executive Order concerning the FY 2020 sewage spill. Additionally, they are coordinating a Regional I&I Study, co-managed by PUD staff and JPA consultants, and funded through the San Diego Metro budget.

Chart 1 summarizes the trend in the JPA’s Operating Expenditures from FY 2020 to present, showing both budget and actuals for FY 2020 – FY 2023, FY 2024’s budget and projected actuals, and FY 2025’s draft Operating Budget amounts.



Upon completing the SARA and the FAB system of charges, by the end of calendar year 2024, the JPA’s consultants' roles are expected to stabilize or possibly decrease, aligning the FY 2026 Operating Budget with the FY 2025 budget level.

During FY 2024, the JPA formed a Reorganization AdHoc, which established the first formal organizational structure for the JPA since its inception and assigned specific roles and responsibilities to consultants. This planning process will continue into FY 2025 with the creation of a Strategic Planning AdHoc, aimed at developing a comprehensive roadmap to achieve the organization's goals over the next five years. The strategic plan will include the following key elements:

1. **Clear Vision and Mission Statements:** Defining the long-term vision and mission of the JPA to guide all strategic initiatives.
2. **Strategic Objectives:** Outlining specific, measurable, achievable, relevant, and time-bound (SMART) objectives addressing organizational growth, financial stability, service improvement, and stakeholder engagement.
3. **Resource Allocation:** Detailing the allocation of financial, personnel, and technological resources necessary to achieve strategic objectives.

4. **Implementation Plan:** Developing a detailed action plan with specific initiatives, timelines, and responsible parties, including milestones and key performance indicators (KPIs).
5. **Performance Monitoring and Evaluation:** Establishing a framework for regularly monitoring and evaluating the strategic plan's progress.

By addressing these elements, the strategic plan will provide a clear and actionable framework for the JPA to achieve its goals and ensure sustained achievements. The FY 2025 Operating Budget was created with consideration of the elements outlined in the draft framework of the strategic plan.

**METRO WASTEWATER JPA FY 2025 OPERATING BUDGET
FY 2025 OPERATING BUDGET OVERVIEW**

INTRODUCTION

The JPA's FY2025 Operating Budget has been established to meet the upcoming strategic planning framework. A summary of the proposed FY 2025 Operating Budget is presented in Table 1.

TABLE 1 FY 2025 PROPOSED OPERATING BUDGET		
Administration & Finance	\$ 295,700	36%
General & Administrative Expenses	\$ 13,485	2%
Professional Services	\$ 517,725	63%
TOTAL	\$ 826,910	100%

The detailed FY 2025 Operating Budget, with prior year actual-to-budget comparison, is included in Attachments 1 and 2. This FY 2025 Operating Budget overview is organized into three distinct sections, along with summary and conclusion sections, addressing specific aspects of our operational framework:

- 1. Unchanged Program Expenses:**
 - This section outlines program expenses consistent with previous fiscal years, encompassing essential operational costs. While these expenses remain largely unchanged, efforts continue to optimize cost-effectiveness without compromising performance quality.
- 2. Updated Program Expenses Pending Contract Review:**
 - This section addresses existing program expenses undergoing potential revisions following comprehensive contract reviews. All existing contracts have been evaluated to identify clear scopes of work and any modifications due to changed tasks, and budget adjustments.
- 3. Program Changes and Advancements:**
 - This section highlights new programs proposed for implementation in FY 2025. These initiatives aim to address emerging challenges, capitalize on technological advancements, and promote sustainable practices.

The FY 2025 Operating Budget is \$55,155 or 7% higher overall (14% higher within the specific changed accounts included in Table 2) than the FY 2024 budget, resulting from changes noted in Table 2 and discussed in Sections 1 – 3.

TABLE 2
CHANGES: FY 2025 PROPOSED OPERATING BUDGET

	FY 2025 Proposed Annual Budget	Difference from FY '24 Budget		Variances in Line Items Compared to the FY 2024 budget
		\$	%	
Expense				
Admin - Board Secretary	\$ 49,200	\$ 12,100	25%	Contract accurately budgeted with COLA
Financial Services				
Audit Fees	-	(12,000)		Audit not required in FY 2025
Executive Director - The Keze Group	168,000	18,000	11%	Executive Director's increase approved 4/24
Treasurer	50,000	20,000	40%	Transition to private consulting plus contingency
Per Diem - Board	28,500	3,500	12%	More frequent meetings and COLA adjustments
Printing, Postage, Supplies	500	(360)	-72%	Decrease based on actual expense forecast
Professional Services				
Engineering - NV5	30,000	(10,000)	-33%	Decrease following SARA draft completion
Paul Redvers Brown	12,450	(12,450)	-100%	Decrease following SARA draft completion
Strategic Planning	15,275	15,275	100%	New contract
IT & Communications	20,000	20,000	100%	Placeholder for potential website update, etc.
Telephone, Internet, Software	3,000	860	29%	Software cost expected to rise.
Website Maintenance & Hosting	3,535	230	7%	Year three of four-year approved contract
Total Expense Changes	\$ 380,460	\$ 55,155	14%	

SECTION ONE

CONTRACT REVIEW: UNCHANGED PROGRAM EXPENSES

Many FY 2025 budget line items remain unchanged, with slight reductions or increases based on contract provisions such as COLA adjustments for inflation. Major consultants: Dexter Wilson Engineering, NV5, and The Keze Group, are in the third year of four-year contracts. The Keze Group's contract ceiling was increased in FY 2024 to accommodate the Executive Director position for FY 2025. No changes to the other contract ceilings are requested for FY 2025, except for NV5, whose contract ceiling will be reduced from \$40,000 to \$30,000 following SARA negotiations. General Counsel, Procopio, Cory, Hargreaves & Savitch LLP, will continue using their FY 2024 budget projection for FY 2025. Miscellaneous expenses like telephone, internet, software, and website maintenance have slightly increased. Meeting expenses are forecast to remain within budget, with potential plans for Metro TAC hybrid meetings.

SECTION TWO

CONTRACT REVIEW: UPDATED PROGRAM EXPENSES

After thoroughly reviewing all of the JPA's consultant contracts, it was determined that one contract needed updating.

Administrative Assistant Contract: The Administrative Assistant (Board Secretary) contract lacks a stated yearly payment cap, only a cap on hours per task, unlike all of the other consultant

agreements. Upon review, it was found that the budget for the last two years was incorrectly set at \$37,100 instead of the correct \$49,200, inclusive of COLA adjustment. This has been corrected in the FY 2025 Operating Budget.

SECTION THREE:

CONTRACT REVIEW: FY 2025 PROGRAM CHANGES AND NEW CONTRACTS

The following contracts and/or line items were either modified or included as new one-year contracts for FY 2025:

- **Auditor Services:**
 - The next JPA audit is not needed until FY 2026 for FY 2024-2025 and will be budgeted and performed in FY 2026.
- **Treasurer:**
 - With the recent JPA Agreement change, the Treasurer's position can now be held by an outside CPA consultant. Ms. Lee Ann Jones-Santos, currently providing Treasurer's staffing, will retire on July 1, 2024. No other participating agency (PA) is interested in the Treasurer role due to staffing constraints. It is recommended that Ms. Jones-Santos continue as JPA Treasurer through a consulting firm, with the budget increased to \$40,000 plus a \$10,000 transition contingency, totaling \$50,000.
- **Metro Director Per Diems:**
 - Per Resolution 2023-2, the Per Diem per meeting will increase by 5% to \$166, with mileage reimbursement included. The budget will increase from \$25,000 to \$28,500 to accommodate these changes plus funding for the Strategic Planning AdHoc.
- **Updating the JPA's Mission and Strategic Goals (Strategic Planning):**
 - A strategic planning process will be undertaken to update the JPA's FY 2020 Strategic Plan, aligning it with the new organization structure and current circumstances. A contract for John Gavares, The Gavares Group, to provide Strategic Planning Services is included in the FY 2025 budget request, with a range from \$7,275 to \$15,275.

SECTION FOUR:

FY 2025 OPERATING BUDGET PROCESS

The FY 2025 Operating Budget has been reviewed twice by the Finance Committee, considering the line-item budget, current financial position, and reserve levels. As part of the FY 2024 budget process, the JPA Board adopted Resolution 2023-01, establishing a Reserve Fund Policy. The policy formalized the existing Operating Reserve of four months of operating expenditures and added a Contingency Reserve for unforeseen circumstances, to be funded in FY 2025 based on cash position changes.

The Finance Committee reviewed alternatives to fund the Contingency Reserve and unanimously agreed to totally fund it with the FY 2025 Budget, both of which they approved to be moved forward to Metro TAC for review and to the full Board . The FY 2025 Operating Budget and Contingency Reserve funding were also unanimously approved by Metro TAC to be moved forward to the full Board of Directors.

SECTION 5:

FY 2025 BUDGET REVENUE PLUS CONTINGENCY RESERVE FUNDING

The FY 2025 Operating Budget reflects a rise of \$55,155, or a 7% overall increase from FY 2024 as shown in Table 3. Table 3 shows not only the approved FY 2024 Operating Budget but also the projected forecast for year-ending June 30, 2024. A full line-item detail of projected FY 2024 budget versus actual expenses is included as Attachment 2.

TABLE 3 FY 2024 VS. FY 2025 PROPOSED OPERATING BUDGET						
	FY 2024 Budget			FY 2025 Budget		
	Approved	Forecast	Difference	Proposed	Difference	
Administration & Finance	\$ 254,100	\$ 279,505	\$ 25,405	\$ 295,700	\$ 41,600	16%
General & Administrative Expenses	\$ 12,755	\$ 6,711	\$ (6,044)	\$ 13,485	\$ 730	6%
Professional Services	\$ 504,900	\$ 460,512	\$ (44,389)	\$ 517,725	\$ 12,825	3%
TOTAL	\$ 771,755	\$ 746,727	\$ (25,028)	\$ 826,910	\$ 55,155	7%

The Operating Budget has four sources of income/revenues as shown in Table 4 : they are the annual Membership Dues charged to each JPA member for the operations of the JP, use of prior year reserves, if any, to offset the current years' operating budget, reimbursements from the City of San Diego, and interest income:

TABLE 4 INCOME: FY 2025 PROPOSED OPERATING BUDGET				
	FY 2025 Proposed Annual Budget	Difference from FY '24 Budget		Variances in Line Items Compared to the FY 2024 budget
		\$	%	
Income				
Membership Dues	\$ 790,855	\$ 63,310	8%	Increase based on FY 2025 budget adjustments
Use of Reserves		-		
City of San Diego	35,355	(8,855)	-25%	Decrease due to facilitation contract reduction
Interest Income	700	700	100%	Not included in FY 2024 budget
Total Income	\$ 826,910	\$ 55,155	7%	

1. **Use of Reserves:**

- Excess Operating reserves have been used to offset expenses in past years. However, no excess reserves are projected for FY 2025 as a budget offset.

2. **City of San Diego:**

- The City of San Diego provides offsets for Board Secretary expenses (50%) and the Pure Water Facilitator's contract (70%).

3. **Interest Income:**

- Revenue from the JPA's interest-bearing investments, such as savings accounts and CDs are used as an offset to the annual Operating Budget.

4. **Membership Dues:**

- JPA members fund the remaining balance of the annual budget, with cost allocations determined from the City of San Diego annual Metro Budget which are based on prior year's flows and sewage strengths. These cost allocations are reconciled through the Exhibit E audit process. The FY 2025 Member Ship dues are projected to be \$790,855 which is the total Operating Budget of \$826,910 less the other non-operating revenues shown in Table 4.

Table 5 summarizes the required Membership Dues from each of the JPA members to fund both the FY 2025 Operating Budget and the Contingency Reserve.

TABLE 5								
FY 2025 BUDGET PLUS CONTINGENCY RESERVE FUNDING								
Agency	DRAFT FY 2025 BILLING			Contingency Reserve Funding				
	Base Amount	Difference		Fund In One -Year				
	Total Agency Billing	\$	%	Reserve Contribution Per Agency	Total FY 2025 + Reserve	Difference FY2024		
Chula Vista	\$ 261,255	\$ 29,605	12.8%	\$ 65,314	\$ 326,569	\$ 94,919	41.0%	
Coronado	\$ 20,870	\$ 1,226	6.2%	\$ 5,218	\$ 26,088	\$ 6,444	32.8%	
County of SD*	\$ 134,572	\$ 18,238	15.7%	\$ 33,643	\$ 168,215	\$ 51,881	44.6%	
Del Mar	\$ 212	\$ 66	45.4%	\$ 53	\$ 264	\$ 119	81.7%	
El Cajon	\$ 114,097	\$ 8,894	8.5%	\$ 28,524	\$ 142,621	\$ 37,418	35.6%	
Imperial Beach	\$ 30,765	\$ 4,064	15.2%	\$ 7,691	\$ 38,456	\$ 11,755	44.0%	
La Mesa	\$ 56,520	\$ (884)	-1.5%	\$ 14,130	\$ 70,649	\$ 13,246	23.1%	
Lemon Grove	\$ 25,350	\$ 1,196	4.9%	\$ 6,338	\$ 31,688	\$ 7,533	31.2%	
National City	\$ 60,414	\$ (627)	-1.0%	\$ 15,104	\$ 75,518	\$ 14,477	23.7%	
Otay Water District	\$ 5,101	\$ 1,100	27.5%	\$ 1,275	\$ 6,376	\$ 2,375	59.3%	
Padre Dam MWD	\$ 49,625	\$ (1,375)	-2.7%	\$ 12,406	\$ 62,032	\$ 11,031	21.6%	
Poway	\$ 32,073	\$ 1,808	6.0%	\$ 8,018	\$ 40,092	\$ 9,826	32.5%	
Total	790,855	\$ 63,310	8.7%	\$ 197,714	\$ 988,569	\$ 261,024	35.9%	
* County of SD includes East Otay Mesa, Lakeside/Alpine, Spring Valley and Wintergardens								

STAFF RECOMMENDATION

1. Staff recommends that the JPA Board of Directors approve:
 - a. The FY 2025 JPA Operating Budget,
 - b. The funding for the Contingency Reserve, and.
 - c. That Membership Dues be sent out to all JPA members as shown in Table 5 totaling \$988,569 which includes the FY 2025 Operating Budget OF \$826,910 less offsetting non-operating revenues, and the fully funded Contingency Reserve.
2. Discuss or take other action as appropriate.

ATTACHMENT 1
FY 2025 PROPOSED OPERATING BUDGET

	FY 2025 Proposed Annual Budget	Difference from FY '24 Budget		Variances in Line Items Compared to the FY 2024 budget
		\$	%	
Income				
Membership Dues	\$ 790,855	\$ 63,310	8%	Increase based on FY 2025 budget adjustments
Use of Reserves		-		
City of San Diego	35,355	(8,855)	-25%	Decrease due to facilitation contract reduction
Interest Income	700	700	100%	Not included in FY 2024 budget
Total Income	\$ 826,910	\$ 55,155	7%	
Expense				
Admin - Board Secretary	\$ 49,200	\$ 12,100	25%	Contract accurately budgeted with COLA
Bank Charges	200	-	0%	
Contingency Reserve Funding	-	-	#DIV/0!	
Contingency Reserve Funding		-		Finance Committee Recommendation
Financial Services				
Audit Fees	-	(12,000)		Audit not required in FY 2025
Executive Director - The Keze Group	168,000	18,000	11%	Executive Director's increase approved 4/24
Treasurer	50,000	20,000	40%	Transition to private consulting from PA support
JPA/TAC meeting expenses	6,000	-	0%	
Miscellaneous	250	-	0%	
Per Diem - Board	28,500	3,500	12%	More frequent meetings and COLA adjustments
Printing, Postage, Supplies	500	(360)	-72%	Decrease based on actual expense forecast
Professional Services				
Engineering - Dexter Wilson	200,000	-	0%	
Engineering - NVS	30,000	(10,000)	-33%	Decrease following SARA draft completion
Legal - Procopio (2nd ARA/PW)	150,000	-	0%	
Legal - Procopio (General)	60,000	-	0%	
Legal - Procopio (Spill)	30,000	-	0%	
Paul Redvers Brown	12,450	(12,450)	-100%	Decrease following SARA draft completion
Strategic Planning	15,275	15,275	100%	New contract
IT & Communications	20,000	20,000	100%	Placeholder for potential website update, etc.
Telephone, Internet, Software	3,000	860	29%	Software cost expected to rise.
Website Maintenance & Hosting	3,535	230	7%	Year three of four-year approved contract
Total Expense	\$ 826,910	\$ 55,155	7%	

Fund Balance at 6/30/23	\$ 263,174
Projected Net Income FY '24	9,505
Projected 6/30/24 Fund Balance	\$ 272,679
4 Months Operating Expenses FY '24	(263,852)
Amount over Required Reserve	\$ 8,827

ATTACHMENT 2
FY 2024 PROJECTED BUDGET VERSUS ACTUALS

	Actual Through 12/31/2023	Estimate Remaining Months	Forecast Through 6/30/24	Approved Annual Budget	Forecast over /(under) Budget	
					\$	%
Income						
Membership Dues	\$ 727,544	\$ -	\$ 727,544	\$ 727,545	\$ (1)	0%
Use of Reserves	\$ -	-	-	-	-	
City of San Diego	\$ 6,770	\$ 21,248	28,018	44,210	(16,192)	-37%
Interest Income	470	200	670	-	670	
Total Income	\$ 734,784	\$ 21,448	\$ 756,232	\$ 771,755	\$ (15,523)	-2%
Expense						
Admin - Board Secretary	\$ 25,630	\$ 22,800	\$ 48,430	\$ 37,100	\$ 11,330	31%
Bank Charges	36	36	72	200	(128)	-64%
Contingency Reserve Funding	-	-	-	-	-	
Contingency Reserve Funding						
Financial Services				-		
Audit Fees (1)	20,800	24,200	45,000	12,000	33,000	275%
Executive Director - The Keze Group (2)	70,179	79,000	149,179	150,000	(821)	-1%
Treasurer - El Cajon	-	11,600	11,600	30,000	(18,400)	-61%
JPA/TAC meeting expenses	-	4,225	4,225	6,000	(1,775)	-30%
Miscellaneous	24	-	24	250	(226)	-91%
Per Diem - Board	12,648	12,648	25,296	25,000	296	1%
Printing, Postage, Supplies	-	250	250	860	(610)	-71%
Professional Services						
Engineering - Dexter Wilson	94,627	105,000	199,627	200,000	(373)	0%
Engineering - NV5	7,935	8,000	18,000	40,000	(22,000)	-55%
Legal - Procopio (2nd ARA/PW)	81,292	66,500	147,792	150,000	(2,209)	-1%
Legal - Procopio (General)	29,774	30,000	59,774	60,000	(226)	0%
Legal - Procopio (Spill)	9,519	20,000	29,519	30,000	(481)	-2%
Paul Redvers Brown	1,160	4,640	5,800	24,900	(19,100)	-77%
Strategic Planning						
Communications						
Telephone, Internet, Software	1,141	999	2,140	2,140	-	0%
Website Maintenance & Hosting (3)	-	-	-	3,305	(3,305)	
Total Expense	\$ 354,764	\$ 389,898	\$ 746,727	\$ 771,755	\$ (25,028)	-3%
Net Income (Loss)	\$ 380,020	\$ (368,450)	\$ 9,505	\$ -	\$ 9,505	

(1) FY 2024 audit budget of \$45,000 for two-year audits approved after start of FY 2024 fiscal year.

(2) FY 2024 budget amended to include \$18,000 contract increase for Executive Director position in April 2024.

(3) FY 2024 Website Contract prepaid in FY 2023