



## Staff Reports Details (With Text)

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**Title:** Solid Waste/Recycling Fund and Water Fund Budget for FY 2020/21  
**Sponsors:**  
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**Attachments:** 1. ATCH 1 - Budget Presentation

Date	Ver.	Action By	Action	Result
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5/19/2020      1      CITY COUNCIL OF THE CITY OF NAPA

To: Honorable Mayor and Members of City Council

From: Phil Brun, Utilities Director

Prepared By: Phil Brun, Utilities Director

### TITLE:

Solid Waste/Recycling Fund and Water Fund Budget for FY 2020/21

### RECOMMENDED ACTION:

Provide direction to staff regarding the proposed budget adjustments in the Solid Waste/Recycling Fund and Water Fund for fiscal year 2020/21.

### DISCUSSION:

The budget for Fiscal Year 2020/21 for the City's Solid Waste/Recycling Fund and Water Fund was adopted on June 18, 2019, as a part of the City's two-year budget cycle for fiscal years 2019/20 and 2020/21. The purpose of this report is to provide an update to the Council regarding projections for end of FY2019/20 and to propose appropriate revisions to the fiscal year 2020/21 budget, primarily due to COVID-19 impacts.

COVID-19 has affected numerous aspects of our work and personal lives. The COVID-19 pandemic has had an immediate impact on Solid Waste/Recycling and Water revenues and is likely to have negative effects on revenue over-time due to delinquent accounts.

#### Water Fund

For FY 2019/20, COVID-19 impacts in the Water Fund are projected to be \$240,000 in reduced revenue for April - June. The impacts are primarily related to hotels and restaurant closures and/or reduced business operations. Fortunately, water sales revenue is projected to exceed budget by approximately \$1M in FY2019/20 due to a warm and relatively dry fall and winter. Therefore, no budget changes are necessary to absorb the COVID impact on revenues.

For FY2020/21, reduced revenue due to COVID is projected to be a total of approximately \$950,000 due to the following impacts:

- \$550,000 - Revenue loss from hotels, restaurants and other businesses.
- \$400,000 - Reduction in Development Fees due to delayed projects.

Potential options to manage these impacts in the Water Fund includes the following elements:

- Sale of State Water Project entitlements (\$1.0M - \$1.4M)
- Labor Concessions (\$400k)
- 3 - 6 vacant positions (\$400k - \$900k)

In addition, delinquent payments on water bills is projected to be approximately 5% of revenue or a loss of \$1,500,000. This is not a permanent loss of revenue but rather a delay in receipt of billed revenue. Appropriate, targeted messaging will be employed to help customers minimize their unpaid balances. It is also anticipated that flexible, no-interest payment plans will be offered to help customers make these payments over time. Use of the operating reserve may be appropriate to cover these losses since the revenue will be recovered over time to refund fund balance. Write-offs, if they occur, are likely to be a FY2021/22 issue.

#### Solid Waste/Recycling Fund

The Solid Waste and Recycling Fund began FY2019/20 with a fund balance of \$2.6M. Based on the recent rate setting process, FY2019/20 was projected to have a low fund balance this fiscal year and then slowly build over the succeeding years to restore fund balance to approximately \$7M. Pre-COVID projections show the fund was to end the fiscal year with a modest gain of \$0.3M bringing the fund balance up to \$2.9M.

However, COVID-19 impacts in the Solid Waste/Recycling Fund are projected to be \$690,000 in reduced revenue for April - June. The impacts are primarily related to hotels, restaurants and retail store closures and/or reduced business operations. Given that these impacts are occurring late in the fiscal year and most expenditures in the Solid Waste/Recycling Fund are fixed based on contracts with NRWS, these impacts will need to be covered by fund balance, lowering the level to \$2.2M.

For FY2020/21, pre-COVID projections indicate a \$0.8M gain based on the recent gate rate adjustments that have taken effect and the continued implementation of annual rate increases. Unfortunately, reduced revenue due to COVID is projected to be a loss of approximately \$1.5M for the full FY2020/21. This results in a net loss of \$0.7M.

In addition, delinquent payments on solid waste/recycling bills is projected to be approximately 5% of revenue or a loss of \$1.2M. Similar to the Water Fund, this revenue is expected to come in over-time as payment plans are offered to those in need. Unlike the Water Fund that can do a short-term draw on reserves to cover delinquencies, the Solid Waste/Recycling Fund may not have this same opportunity. Therefore, these losses need to be covered in the budget bringing the projected total loss to \$1.9M.

Potential options to manage these impacts in the Solid Waste/Recycling Fund includes the following

elements:

- Remove transfer to Street Resurfacing (\$1.1M)
- Negotiate contract changes with NRWS (\$100k - \$700k)
- Freeze Transfer Station Tip Fees (\$50k)

Given the unknown nature of NRWS negotiations at this time, it is prudent to assume that approximately \$600k would be used from fund balance, lowering the projected total balance to \$1.8M.

Both funds have the benefit of regular billing to customers, therefore we are able to track actual revenue and delinquencies and compare to past years. This will help refine projected impacts as we move forward and inform further budget adjustments as needed. The FY 2020/21 City Budget will be brought to Council on June 8, 2020 for public hearing and Council feedback and approval.

**FINANCIAL IMPACTS:**

None by this action. The purpose of this report is to provide the City Council with an overview of the Solid Waste/Recycling Fund and Water Fund budget projections for FY2019/20 and FY2020/21, particularly related to COVID-19 impacts, and an opportunity to understand the fiscal situation prior to the upcoming public hearings in June.

**CEQA:**

The Utilities Director has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

**DOCUMENTS ATTACHED:**

ATCH 1 - Budget Presentation

**NOTIFICATION:**

None