AGENDA ITEM: 7

CAYUCOS SANITARY DISTRICT
STAFF REPORT

TO: BOARD OF DIRECTORS

FROM: DAVID ATHEY, DISTRICT MANAGER

DATE: MAY 21, 2026

SUBJECT: ~~DISCUSSION AND CONSIDERATION TO APPROVE THE DRAFT FISCAL YEAR 2026/27 CAYUCOS SANITARY DISTRICT OPERATING BUDGET & CIP BUDGET~~
DISCUSSION AND CONSIDERATION TO ADOPT CAYUCOS SANITARY DISTRICT RESOLUTION 2026-04 APPROVING THE FISCAL YEAR 2026/27 CAYUCOS SANITARY DISTRICT BUDGET
A. OPERATING BUDGET
B. CIP BUDGET

BACKGROUND

District staff have prepared the draft Fiscal Year 2026-2027 (FY26/27) Annual Budgets for Operations and Capital Improvement Projects (CIP). The draft FY26/27 Operating and CIP Budgets were presented to the Budget Committee on May 7, 2026 for review and input. The Budget committee was unable to give direction to staff or make a budget recommendation to the full Board because a quorum of members was not present.

The draft FY26/27 Operating Budget was developed to ensure the proposed expenditures are not under- or over-budgeted. Staff used actual current year expenditures and anticipated increases where available. An example of an anticipated increase is the annual escalation of health care costs experienced by the District. The draft FY26/27 Operating Budget maintains existing service levels while minimizing budget increases to the extent practical.

The draft FY26/27 CIP budget was developed to prioritize projects, studies, and equipment purchases that will reduce ongoing workload, offer operational efficiencies, enhance safety, and position the District for continued fiscal success. For example, collections projects were prioritized to reduce ongoing maintenance activities in areas with re-occurring maintenance such as main repairs in areas where line cleaning is frequently needed to deal with root intrusion or grease buildup. This will enable the District to free up staff time and resources to work on other higher priority collection system tasks.

The District has adequate resources available for the continuing operations, proposed expenditures, and loan obligations based upon projected revenues and anticipated expenditures. Inflationary effects and staffing needs have been carefully considered to carry out the District's budgetary goals and objectives. A Budget Comparison Summary is included in Attachment 1, and a Detailed Budget Summary is included in Attachment 2. The draft FY/2026-2027 Budgets at a Glance is shown below in Table 1.

Table 1 - 2026-2027 Draft Budgets at a Glance:

Category	2026-2027 (No Cola, Standby Pay Increase, or Salary Adjustments)	2026-2027 (includes COLA, Standby Pay increases, and Salary Adjustment funding)	2025-2026 (Included COLA)
Projected Income	$4,957,300	$4,957,300	$4,854,500
Projected Expenses	$4,307,300	$4,392,800	$4,412,250
Capital Improvement Costs	$480,000	$480,000	$330,000
Net Revenue	**$120,000**	**$34,500**	$112,250

ANALYSIS

Revenue Projections

Sewer Income: Sewer income remains steady and sufficient and will increase slightly by 0.6%.

Will-Serve Income: Projections for local construction projects remain the same.

Rental Income: Rental income is expected to drop significantly should the sale of the Morro Bay WWTP site be completed. The remaining rental income will come from the Duke Energy Solar Field lease. Rental income will drop to just $3,600 per year.

Solid Waste Income: Franchisee's increased rates will modestly increase our income by about 5%.

Property Tax: The County projections indicate that the District's share of property tax will increase by approximately 9% next fiscal year. This is mainly due to home sales and remodeling activities.

Interest Income: Interest income is expected to increase slightly in the coming year based on the District's managed investment portfolio. A modest increase in investment income of 12.5% is expected based on the portfolio's year-to-date return.

One-Time Income: It is expected that the sale of the Morro Bay property will bring a one-time income of 3.8 million to the District in FY26/27. This anticipated income is not included in the draft Annual Budget. Staff will be returning to the Board for direction later in the year on how to treat this income.

Expense Projections

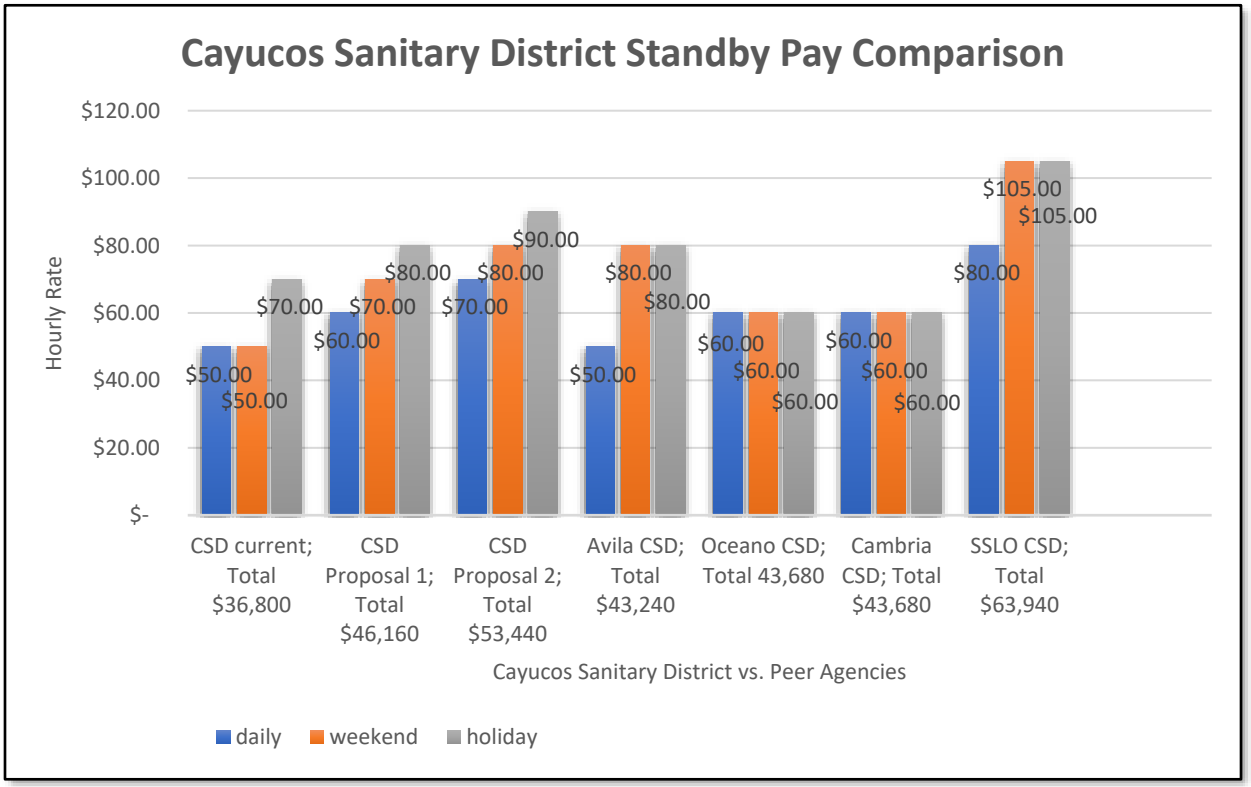
Payroll:

Cost of Living Adjustment (COLA) - Staff is proposing including funding for a 3% COLA. As part of our annual salary review, a comparison was made between the Consumer Price Index (CPI), Social Security Cost of Living Allowance (Allowance) increases and District COLA history. During the period covering 2020-2026, CPI increased 27.15%, Social Security Allowance increased

26.0% and CSD COLA increased 24%. The Board has maintained wages just under the CPI over the last five years. Staff recommends that the Board continue to maintain a competitive salary base by keeping up with inflation. The Draft FY26/27 budget includes the proposed 3% COLA funding. Staff prepared a separate table in Attachment 3 showing the impact of 3% and 5%, as well as a flat rate for all employees for comparison purposes. A 3% COLA will increase District labor costs by approximately $32,917 next fiscal year. Agenda Item 9 addresses the approval of the proposed 3% COLA.

Proposed Standby Pay Adjustment- Staff is proposing to include funding to raise the current standby pay daily reimbursement to maintain staff pay competitiveness. A survey of the District's peer agencies (Chart 1, below) determined that the District's standby pay is on average lower than the four area Districts surveyed. The District pays a lump sum for being on call after hours during the week ($50), weekend ($50), and holidays ($70). This District's next-nearest peer agency pays approximately $10 per weekday more than the District. Therefore, staff recommends that the standby pay rate be adjusted to be slightly more competitive than our peer agencies by raising standby pay to weekday ($60), weekend ($70), and holiday ($80). The proposed standby pay increase will increase District labor costs by approximately $9,360 next fiscal year. Agenda Item 9 addresses the approval of the proposed Standby Pay Adjustment.

Chart 1 – Standby Pay Comparison



Salary Adjustments – Staff is also proposing to include funding to address wage competitiveness of operations positions. Wage disparities between the District and peer agencies present a potential staffing challenge as it is more difficult to recruit candidates during vacancies. Wage disparities also make positions at other agencies more enticing. Lastly, as property and rentals become more expensive within the ½ hour on-call response radius, uncompetitive wages makes it difficult to recruit and retain quality staff.

A compensation comparison was conducted to determine salary competitiveness for Collections and Operations positions. Staff evaluated positions and pay at local peer agencies for similar

duties and responsibilities. Wages for the Lead Collection Worker position are below the median pay of the CSD peer agencies. Therefore, staff is proposing to adjust the wages of the Lead Collection Worker Classification to be competitive with median wage of the District's peer agencies. This will ensure that the District's wages remain competitive with peer agencies and the local economy. The proposed hourly Collection Worker wages are shown in Attachment 4 and include the proposed 3% COLA. It should be noted that while the entire table was adjusted for a 3% COLA and re-aligned according to the peer review, the only current employee impacted by an additional wage increase is the Lead Collection Worker. The proposed salary adjustment will cost the District approximately $11,440 next fiscal year including the 3% COLA.

Lastly, additional funding for a salary adjustment for the District's Administrative Accounting Manager is included in the draft FY2026/2027 budget. The wages of the District Administrative Accounting Manager are proposed to be aligned with the wages of the Administrative Services Manager/Board Secretary. Both positions perform work that is complex in nature, varied, requires a high level of skill and District knowledge, and has an equal level of professional responsibility.

In addition, Administrative Accounting Manager job responsibilities have increased over the last few years because of increased financial duties related to Governmental Accounting Standards Board reporting, increased payroll and benefit coordination, additional human resources responsibilities, and tracking and management of the District's USDA Loan. Lastly, the Administrative Accounting Manager will also be involved with management of the District's investments once that strategy is finalized with OIP later this year. The proposed Administrative Accounting Manager wage adjustment will increase District labor costs by approximately $10,213 next Fiscal Year including the 3% COLA if it is adopted.

Operating Expenses:

Administration: Expenses are anticipated to decrease by approximately 4.75%. This is the second year Administration expenses will decrease. Notable changes include:

- There is a 75% decrease in the "Professional Services – Other" line item as the line item was increased for a special project in 2025.
- A new $10,000 supplemental grant is proposed for the District to provide extra waste containers and waste services for special community events. This line item will utilize Solid Waste Franchise Fees paid to the District.
- A new $5,000 expense for the Mutt Mitt program is proposed. This line item will utilize Solid Waste Franchise Fees paid to the District.
- The "Professional Services – Accounting" line item is increasing by $7,500 because of a new three-year contract with the District's auditor.

Collections: Overall expenses are projected to increase by 2.7%. The increase is due to the following:

- Utilities are projected to increase, with PGE leading the increase.
- Fuel prices have increased and are expected to remain elevated for some time.

WRRF: Repairs, equipment replacement and proactive maintenance along with annual increases in permits and services are all expected to increase. The overall category is higher than last year because of an increase in facility maintenance including road slurry sealing, corrosion control coatings, and base material maintenance around the plant.

Reserves: Staff is proposing to set aside $200,000 in reserves for Long Range Planning. The amount saved in the 2025-2026 actual budget has exceeded expectation by almost $300,000.

Therefore, to fund ongoing Capital Improvement Projects and potentially provide a COLA and standby pay increases, the amount was reduced. Staff is proposing to bring back a Reserves Policy for Board consideration during the 2026-2027 budget year.

Debt Service/Loan Interest:

USDA Loan: Payments on the USDA loan (40 years @ 1.75%) began February 1, 2022. Principal and interest for FY26/27 will be $845,774. In addition, pursuant to the terms of their Letter of Conditions, the District will continue to save $85,052.64 annually until a balance equal to one annual loan payment (approximately 10 years) has accumulated.

CIP Budget:

The District's proposed Capital Improvement Project Budget is $530,000 for 2026-2027. A draft CIP Budget is included in Attachment 4. The proposed Capital Improvement Project Budget includes the following:

- Continued sewer main repair funding – Staff is proposing to repair two priority sewer mains that require ongoing maintenance on a consistent basis.
- Capital Improvement Plan and Rate Study - This project entails development of a 5–15-year Capital Improvement Plan (Capital Plan) and an updated Sewer Rate Study (Rate Study). The Capital Plan will detail projects needed to maintain the District's 70-year-old collection system and maintain WRRF operations. The Capital Plan will look at priority infrastructure and issues such as trunk mains and infiltration and inflow into the collections system along with WRRF projects such as equipment and filter replacement. The Capital Plan will include costs and proposed project timelines and will be used with the previously developed operations and staffing financial models in a proposed Rate Study to determine the minimum rates needed to support ongoing operations and capital projects.
- Toro to Chaney Main Line Replacement – The project is now at 100% design and ready for implementation. This will enable the project to get underway while financing for the $3M project is finalized.
- Spare Pump for Lift Station 2 – This project will provide operational redundancy at Lift Station 2. The spare pump will be kept on the shelf and will be deployed upon a pump failure at Lift Station 2. This will reduce the risks of a Sanitary Sewer Overflow during high flow conditions and a pump failure.
- Vehicle Purchase – The District's trucks are all 10 years old or older. This purchase is to replace the 2009 Ford Ranger at the WRRF. The proposed vehicle will be a Ford F-150 or equivalent truck, set up for WRRF operations including a portable fuel tank, equipment boxes, and tow hitch. The portable fuel tank will be used to fuel the CAT Skid Steer Loader. The tow hitch will be used to support the recently purchased confined space entry equipment during use at the plant.

FISCAL IMPACT

Adoption of the draft FY2026/2027 budget will result in expenditures of approximately $4,922,800 on an income of $4,957,300, resulting in a net income of $34,500.

CEQA

Staff finds that this action is not a project under the California Environmental Quality Act pursuant to State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

RECOMMENDATION

~~Staff recommends that the Board review, discuss, and adopt the proposed draft Operating and Capital Improvement Project budgets for FY 2026/2027.~~
Staff recommends that the Board adopt Resolution 2026-004 approving the District's Budget for Fiscal Year 2026/2027.

ATTACHMENTS

1. Budget Comparison Summary
2. Detailed Comparison Budget
3. COLA Projection Table
4. CIP Budget Recommendations
5. Resolution 2026-04