SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-C**

FROM: Steve Mack, General Manager

Meeting Date: February 7, 2013`

SUBJECT: FY 2013-2014 BUDGET ISSUES

RECOMMENDED ACTION: Receive a report on some issues to consider for the District FY 2013-2014 Budget.

FISCAL IMPACT: None

DISCUSSION:

January and February are budget preparation months. Table 1 below identifies a calendar for the budget approval process. The ad hoc Budget Committee met on January 28 to have a discussion on general budget issues. The issues discussed included:

- **Mid year budget review** – this item was covered in Agenda Item V-B.

- **Water Sales revenue.** The FY 2013 budget estimate was based on a 3% water rate increase with a 4% decline in water sales. Water sales for the first six months of this year has increased 9.5 percent over the first six months of last year and our revenue for the first six months is more than expected. What kind of water sales projection should be used for FY 2014? I am thinking flat water sales – no increase nor decrease.

- **Water Rates Increase.** Base Rate and Water Usage Charges – we have agreed in the past for a 3% annual increase for 8-9 years to build revenues for needed capital expenses. Our financial planning model will include this increase in our water sales revenue projections unless the Board directs otherwise.

- **Capital Debt Reduction Charge Increase (CDRC).** The CDRC is currently at $9.70 per 5/8" meter per bimonthly bill and brings in approximately $236,000 per year. The annual costs for the State loans and the Private Placement Loan (PPL) is approximately $404,000. The CDRC was held constant as a condition of receiving Redevelopment funding. The District is no longer receiving Redevelopment funding and has discussed raising the CDRC to fully cover State loan and PPL debt. It would need to increase to approximately $16.00 per 5/8" meter per billing period to raise $404,000.

The Budget Committee discussed the possibility of combining the CDRC with the Base Rate Charge. These two fees are treated exactly the same with respect to how they are applied – based on meter size or multiple unit charge and are fixed bimonthly charges unchanged by the amount of water used. Combining the two charges which would provide for identical increases when rates are increased, and may be easier to explain to ratepayers that having separate charges increased at differing rates. An alternate approach may be to keep the CDRC separate but increase at the same rate (e.g., 3%) as the other charges when those charges are increased. The State loans for which this charge develops revenue will start to be paid off in 2020. The fiscal impacts of these alternatives will be investigated using the financial planning model.

- **Prefunding Retired Employee Health Costs.** Currently the District pays the minimum amount required by CalPERS for retired employee health costs ($115/employee/month in 2013). The District has been covering this on a pay as you go basis – 2 former employees are covered and the annual cost for 2013 is approximately $2700. These costs will increase over time as more employees retire and the minimum cost increases (recently the increase has been 3%/year). State law requires that public agencies prepare and disclose an actuarial cost analysis of this liability and we have done so in the past three audits. We are recommending that this be prefunded on an annual basis through the California Employers Retiree Benefit Trust (CERBT). This will raise this cost to approximately $6,000-7,000 per year, although it may be higher if the Board wishes to catch up on this liability. It will improve our audits (the liability will be covered) and when more employees retire, the impact on the annual budgets will be much smaller when more employees have retired and these minimum health benefit costs are applied to more former employees.

Table 1. FY 2013-2014 Budget Preparation	
Review Capital Improvement Program	December 7, 2012
Budget Committee meetings	February/March 2013
Draft Budget to Board for Discussion/Action, Including Direction on Water Rates	March 7, 2013
Prop 218 Mailing for Water Rate Increase, if necessary	March 18, 2013
Draft Budget to Board for Discussion/Action	April 4, 2013
Approve Budget • Prop 218 Public Hearing on Rates, if necessary	May 2, 2013