SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: April 5, 2012

SUBJECT: FY 2012-2013 DRAFT BUDGET

RECOMMENDED ACTION: Receive a report on the Draft District FY 2012-2013 Budget, including the draft Budget Report, and provide direction to staff and the *ad hoc* Budget Committee.

FISCAL IMPACT: None

DISCUSSION:

The draft FY 2012-2013 (FY 13) Budget was presented at the March meeting. At the meeting we discussed long-term budget issues and the line item details of the proposed FY 13 Budget. During the discussion several items were highlighted, among them was the projection of water sales revenues. I suggested we were using the wrong starting point and that starting with the projected FY 12 water sales revenue would be most appropriate. The *Ad Hoc* Budget Committee has met twice since the last meeting. Items discussed included:

- A 3% water rates increase reflecting a 1.5% increase in water sales revenue is appropriate for the FY 13 Budget.

- The Committee agreed that the appropriate starting point for estimating revenues for FY 13 is the projected revenue from the revised FY 12 Budget. This decreases expected revenue from water sales by approximately $45,000 (out of approximately $1.8 million) and this decrease is carried throughout the budget document.

- The 2013 CIP should be included in the proposed budget but the approved CIP beyond this needs to be reviewed prior to the fall of 2013. We intend to have a staff review, followed by an *Ad Hoc* Budget Committee review prior to bringing it to the Board. Funding from Redevelopment is still uncertain – the Successor Agency Oversight Board approved continuation of the funding but it still needs to survive review by the State Department of Finance. Thank you Oversight Board and CDC Staff!

- The Capital Debt Reduction Charge future needs to be discussed – future raises and to what degree – but that discussion is not needed for this budget cycle.

- The State loans will be retired in 10 years – this is $170,000 per year available for capital projects or other uses.

- Continual monitoring of budget will provide useful information for future actions. Uncertainties abound – in particular, how much and how long will sales decrease? Also important is recognizing that the budgeting process has inherent inaccuracies – we never hit the budgeted amounts exactly and there is typically some amount of carryover. We budget conservatively.

Exhibit A is the draft FY 13 Budget Report. It includes a summary of the budget detail, the revenues and expense pie charts and discussion of notable budget items. This document plus information on the proposed 3% water rates increase will be on the District website.

Table 1. FY 2012-2013 Budget Preparation	
Review Capital Improvement Program	December 1, 2011
Budget Committee meetings	February/March 2012
Draft Budget to Board for Discussion/Action, Including Direction on Water Rates	March 1, 2012
Prop 218 Mailing for Water Rate Increase, if necessary	March 19, 2012
Draft Budget to Board for Discussion/Action	April 5, 2012
Approve Budget	May 3, 2012

Exhibit A.

Sweetwater Springs Water District

Draft

Annual Operating & Capital Improvement Budget

2012-13 Fiscal Year

(For the period July 1, 2012 - June 30, 2013)

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Board of Directors

Sukey Robb-Wilder, President
Jim Quigley, Vice President
Richard Holmer, Financial Coordinator
Gaylord Schaap
Victoria Wikle

General Manager
Steve Mack

Sweetwater Springs Water District
Annual Operating & Capital Improvement Budget
2012-13 Fiscal Year
Draft
Summary

Table 1 is a summary of the Fiscal Year 2012-2013 (FY13) Budget which is described and shown in detail in the following pages. The FY13 Budget is similar in form and content to last year's budget. The FY 13 Budget includes the second year of 3% increases for the Base Rate and Water Usage Charges and inclusion of revenue from the Sonoma County Community Redevelopment Agency (CRDA)/Russian River Redevelopment Oversight Committee (RRROC) for the FY 2013 CIP capital projects.

Table 1. Draft FY 2012-2013 Budget, Sweetwater Springs Water District

OPERATING BUDGET								
	March 1, 2012	FY 10-11 FINAL (CASH)	11-12 BUDGET	11-12 REVISED	FY 11-12 Projected	FY 12-13 BUDGET	Difference FY13-Rev FY12 Budgets
REVENUE							
	OPERATING REVENUE						
	4031.1. · Capital Debt Reduction	235,548	216,000	216,000	235,500	230,000	14,000
	4031.1. · Water Sales	1,763,527	1,814,250	1,814,250	1,770,000	1,796,550	(17,700)
	Total OPERATING REVENUE	**1,999,075**	**2,030,250**	**2,030,250**	**2,005,500**	**2,026,550**	(3,700)
	Total NON-OPERATING REVENUE	**136,012**	**121,700**	**121,700**	**140,500**	**133,000**	11,300
Total Income		**2,135,087**	**2,151,950**	**2,151,950**	**2,146,000**	**2,159,550**	**7,600**
EXPENSES							
	OPERATING EXPENSES						
	Total Salary	**787,273**	**835,323**	**835,323**	**809,000**	**855,700**	**20,377**
	Total Benefits	**492,359**	**523,200**	**280,200**	**277,500**	**295,451**	15,251
	Total SALARY & BENEFITS	**1,279,632**	**1,358,523**	**1,115,523**	**1,086,500**	**1,151,151**	**35,628**
	Total SERVICES & SUPPLIES	**461,477**	**490,390**	**509,390**	**503,354**	**485,930**	**(23,460)**
	Total OPERATING EXPENSES	**1,741,109**	**1,848,913**	**1,624,913**	**1,589,854**	**1,637,081**	**12,168**
OPERATING SURPLUS/DEFICIT		**$393,978**	**$303,037**	**$527,037**	**$556,146**	**$522,469**	**$ (4,568)**
	Total FIXED ASSET EXPENDITURES	**4,887**	**3,500**	**3,500**	**3,700**	**20,000**	**16,500**
	Total TRANSFERS TO OTHER FUNDS	507,000	296,000	496,000	515,500	490,000	(6,000)
SURPLUS/DEFICIT		**-117,909**	**3,537**	**27,537**	**36,946**	**12,469**	**(15,068)**
CAPITAL BUDGET							
REVENUE/SOURCES OF FUNDS							
	Total Assessments	803,150	777,000	777,000	745,500	777,000	-
	Interest	23,045	25,000	25,000	25,000	25,000	-
	Total Grants and Reimbursements	1,584,132	1,263,703	1,451,553	1,451,553	914,250	(537,303)
	Total Transfers from Operations	492,000	281,000	481,000	500,500	475,000	(6,000)
	TOTAL REVENUE	**3,452,576**	**2,346,703**	**2,734,553**	**2,722,553**	**2,191,250**	**(543,303)**
EXPENSES							
	TOTAL DEBT PAYMENTS	**1,088,390**	**1,091,314**	**1,091,314**	**1,091,314**	**1,091,314**	-
	Total Capital Expenses	**2,292,839**	**2,527,532**	**2,540,966**	**1,321,966**	**2,836,000**	**295,034**
	TOTAL EXPENSES	**3,381,229**	**3,618,846**	**3,632,280**	**2,413,280**	**3,927,314**	**295,034**
	SURPLUS/DEFICIT	**71,347**	**-1,272,143**	**-897,727**	**309,273**	**-1,736,064**	**(838,337)**
DISTRICT RESERVES AND FUND AND LOAN BALANCES							
Total District Policy		1,085,081	1,185,057	1,185,057	1,185,057	1,132,099	(52,958)
TOTAL Reserves EOY		**4,791,350**	**2,345,888**	**3,566,983**	**4,808,392**	**3,018,140**	**(548,843)**
Reserves Above (below) Policy		**3,706,269**	**1,160,831**	**2,381,926**	**3,623,335**	**1,886,042**	**(495,885)**

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Summary of FY12 Revenues and Expenses. Figures 1 and 2 respectively show District FY 13 sources of funds and expenses. Note that sources of funds are enhanced by approximately $900,000 from the CRDA/RRROC Grant. Approximately 3% of the sources of funds is from District Reserves for capital improvements.

Figure 1. FY 2013 Sources of Funds
Total = $3.9 Million Revenues + $180,000 Reserves

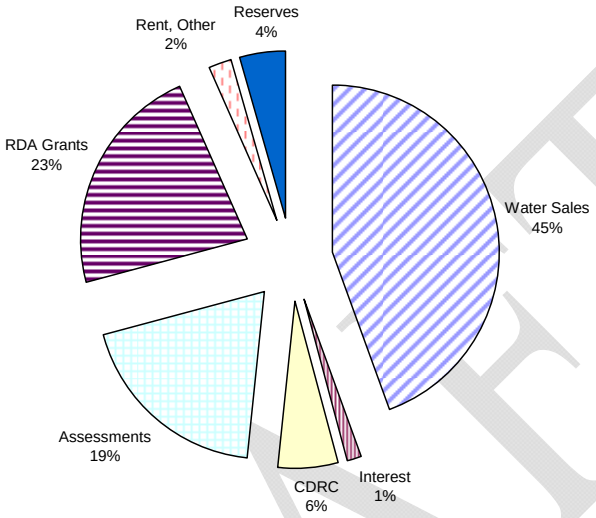
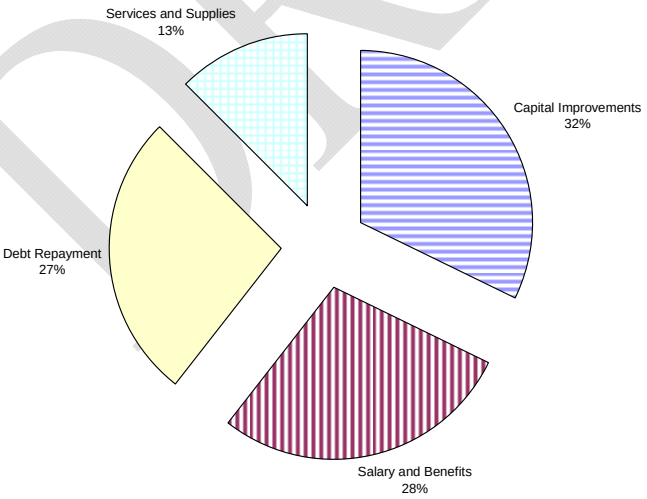


Figure 2. FY 2013 Expenses
Total = $4.0 Million
(does not include FY14 CIP construction)



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2012-13 Fiscal Year (FY13) Budget

The annual budget of the Sweetwater Springs Water District (SSWD) allows the District to accomplish its mission which is to provide its customers with quality water and service in an open, accountable, and cost-effective manner and to manage District resources for the benefit of the community and environment. The District achieves its mission of producing good quality water by pumping Russian River underflow from five wells – 3 located at the Guerneville El Bonita well site and 2 located at the Monte Rio well site. That water is then treated in two separate treatment facilities at the Highlands site for Guerneville and at the Monte Rio well site and distributed through approximately 85 miles of distribution pipes and stored in 26 tanks and reservoirs. This system is managed and its operation administered by the District staff of 10 full time employees. The District has an aggressive capital improvement program aimed at maintaining and improving the capital infrastructure to deliver high quality water, reduce system water losses, and maintain adequate system pressure and fireflow. The annual budget identifies the revenues and expenses that accomplish these tasks.

The FY 13 Budget follows the format established in prior years and includes the second year of a 3% increase to the Base Rate and Water Usage Charges. There is no change to the Capital Debt Reduction Charge.

3% increase to the Base Rate and Water Usage Charges: Most of the revenues for the FY13 Budget come from water rates paid in bimonthly bills by District customers (Figure 1). Last year District staff did a comprehensive multi-year analysis to show that with small annual increases in rates, the District can develop sustainable funding for needed capital projects to maintain District facilities once the current catch up capital improvement program is completed. The financial analysis showed that annual 3% increases will build into $500,000 available annually for capital projects. This is the second year of proposed annual 3% rate increases designed to achieve the sustainable capital improvement program. More information on the District's water rates and a water rate calculator can be found on the District's website at www.sweetwatersprings.com**.**

FY 2013 CIP and FY 2014 CIP (Table 2): The FY13 Capital Budget includes 2013 CIP, which is replacement of approximately 1760 feet (ft) of main line, 22 services, on Starrett Hill Road in Monte Rio; replacement of approximately 1440 ft of main line, 24 services, in Lovers Lane in Guernewood Park; replacement of approximately 1,375 ft of main line, 17 services, on Middle Terrace in Monte Rio; and elimination of dead end mains and creation of loops by installing 1,950 ft of new main and appurtenances in Canyon Seven Rd between Sequoia Rd and Paradise Lane in Rio Nido, estimated to cost approximately $1.3 million. The 2013 CIP is being supported by approximately $914,000 from the RRROC/CRDA.

The FY13 Budget also includes the obligation for funding the FY 2014 CIP, which is replacement of 3,900 ft of existing main and appurtenances on Hidden Valley Road and replacement of 5,800 ft of existing main and appurtenances commencing at the Handy Andy Booster and proceeding westerly to the Highway 116 intersection, estimated to

cost approximately $1.6 million. This expense is included in the FY13 Budget because it would be obligated in May or June of the fiscal year. However, most of the expense will occur in FY14. Because of the end of Redevelopment and any prospect of continuing support for the approved 2012-2018 CIP and the lack of funding to complete the entire CIP, the FY14 CIP will be reviewed prior to the fall of 2013. For budgeting purposes, the current projects proposed for FY14 are included in the FY13 Budget.

District Reserve Policy: A formal District Reserve Policy was approved in September 2009. The Reserve Policy allows the District to gauge its financial health and adequately plan for its future and allows ratepayers to follow this planning. The District Reserve Policy has the following components:

- Budget Reserve – a reserve based on 10% of the Operating Budget expenses for emergencies, such as a natural disaster.
- Economic Reserve – 15% of the Operating Budget expenses for economic downturn or other economic crisis.
- Debt Repayment Reserve - 25% of all payments for principal and interest on all District loans to ensure funding is available to repay existing District debt.
- Capital Reserve – 25% of the nominal Capital Budget of $1 million for similar issues with the capital program.

The sum of all district funds is shown in the budget as Total Reserves End of Year (EOY). This is the sum of the District discretionary funds, listed in the budget, minus $200,000 cash balance for operating purposes, at the end of the year. The difference between Total Reserves EOY and Total District Policy Reserves is Reserves Above District Policy. The District goal is to keep this number positive. The amount above the District Policy Reserve is the amount the District has for future capital projects. The Reserves Above District Policy is a good measure of where we are in funding an ongoing capital program.

Other Financial Assumptions/Highlights of the FY12 Budget include:

- Less water will be sold in FY13 – our assumption is that a 3% rate increase will result in a 1.5% revenue increase in water sales.
- Salaries are increased to match the approved Memorandum of Understanding and contracts for nonrepresented employees.
- The transfer to CIRF to be $220,000 in FY 13.
- The RRROC/CDC grant of $914,000 is included for support of the FY13 CIP described above. Because of the end of Redevelopment, there is some uncertainty whether this grant will be continued (there are two review stages; one by a local Oversight Committee and one by the State Department of Finance). If the grant is voided by either of these review processes, the FY 13 CIP will be fully funded by District Reserves.

Line Item Highlights of the FY12 Budget:

<u>The FY13 Operating Budget provides for ongoing costs consistent with previous years' expenditures, except where identified below.</u>

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The operating budget encompasses the "expenditures related to the operation, maintenance and repair of water facilities", as well as the billing, collections, accounting, fiscal management and other overall administration.

Water Bill Revenue line items have been adjusted to reflect the 3% increases in the Base Rate and Water Usage Charges and slightly reduced water sales. **Capital Debt Reduction Charge** (CDRC) revenue has been adjusted to reflect the actual revenue produced in FY12 as there is no change in the charge. Operating interest is continued at a relatively low amount to reflect continuing lower interest on deposited funds.

Under **Expenses, Wages** are up approximately $21,000 to reflect the salaries and benefits from the Memorandum of Understanding with represented District Employees and contracts with nonrepresented employees. **Benefits** are budgeted to increase approximately $15,000. Wages and Benefits are a major District expense – approximately 70% of the FY13 Operating Budget expenses.

Total Supplies and Services are approximately $23,000 lower than the FY12 approved budget. There are small increases in several line items to reflect higher costs, but savings in others. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and has been increased to reflect the projected costs in FY12 which will likely be similar for FY13. **Governmental Fees** have been increased to reflect higher fees being charged by all levels of government. **Professional Services** continues to decrease to reflect staff's ability to keep consultants' costs down. **Electric** is a big expense item and is expected to be $13,000 less in FY13.

Fixed Asset Expenditures has been increased to account for the purchase of a replacement chlorination system for the Monte Rio Treatment Plant.

The Operating Budget has a surplus of approximately $567,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Reserve Fund (CIRF), Building Fund, In-House Construction Fund, and CDRC revenue.

The FY13 Capital Budget major expenses are the FY 2013 CIP (estimated cost $1.3 million) and FY 2014 CIP (estimated cost $1.6 million), described above and in Table 2.

Capital Interest revenue is estimated conservatively to reflect expected continuing low interest rates this coming year.

Capital Debt is a major expense item – approximately $1.1 million and 27% of total District annual expenses. District Capital Debt includes:

- General Obligation Bonds – $12 million in bonds that were approved to purchase the District and make needed capital improvements. Paid off in 2032. Annual payment - $684,000.
- State Loans - two loans for approximately $3 million which were approved in 1995-6 for needed improvements. Paid off in 2021-2. Annual payment - $170,168.50.
- Private Placement Loan. $3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. Annual payment - $234,012.

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FY 2013 has funding assistance from the RDA/RRROC grant (Table 2).

The Private Placement Loan of $3 million acquired in September 2008 has been completed expended funding District capital projects (CIP IV-A and CIP IV-B).

District Reserves and Funds and Loan Balances show the District's continuing healthy financial picture.

As discussed above reserve balances are a good measure of the health of the District's finances. For FY13, District Policy Reserves are at $1,132,099 and Reserves Above District Policy at the end of the year are $1,886,042**.**

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Table 2. Sweetwater Springs Water District 2013-2014 Capital Improvement Program (CIP)		
Year	Projects	Estimated Cost
2013		
	Starrett Hill Road (MR) Replace approximately 1760 ft of main line, 22 services.	$380,000
	Lovers Lane (GV) Replace approximately 1440 ft of main line, 24 services.	$300,000
	Middle Terrace (MR) Replace approximately 1,375 ft of main line, 17 services.	$290,000
	Canyon Seven Rd (GV) – Eliminate dead end mains and create loops by installing 1,950 lf of new main and appurtenances in Canyon Seven Rd between Sequoia Rd and Paradise Ln.	$329,000
	2013 Total	**$1,299,000**
	75% FY 2013 CIP CRDA Grant	**$974,250**
2014		
	Hidden Valley Rd (GV) – Replace 3,900 lf of existing main and appurtenances on Hidden Valley Rd.	$656,000
	Old Monte Rio Road (GV) – Replace 5,800 lf of existing main and appurtenances commencing at the Handy Andy Booster and proceeding westerly.	$936,000
	2014 Total	**$1,592,000**
	2013-2014 Totals	**$2,891,000**

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