SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: April 2, 2015

SUBJECT: DRAFT FY 2015-2016 BUDGET REPORT

RECOMMENDED ACTION: Receive the draft Budget Report and discuss any outstanding issues regarding the Draft District FY 2015-2016 Budget, including the District's proposed water rates based on a 3% increase, and provide direction to staff and the *ad hoc* Budget subcommittee.

FISCAL IMPACT: Provides financial direction for FY 2015-2016.

DISCUSSION:

The draft FY 2015-2016 (FY16) Budget was presented at the March meeting. At the meeting we discussed budget issues, the proposed water rate increases, and the line item details of the proposed FY16 Budget. During the discussion several items were highlighted, among them was the projection of water sales revenues. Highlights of the FY16 Budget include:

- A 3% increase in the Water Usage, Base Rate and Capital Debt Reduction Charges. This is the fifth year of the nine year plan to increase capital funding to a sustainable level.

- Water sales are projected to be flat.

- The capital project to be constructed in FY16 is the Canyon One Road project in Rio Nido. The FY17 capital project, Park Ave. and Cherry St., will be designed and construction contract award expected in FY 16.

- The USDA bond refinancing is completely resolved; an additional annual savings of approximately $8,000 was realized from the resolution.

- The transfer to the Capital Improvement Revenue Fund is budgeted at $320,000 which is a result of the reduced water sales from drought-related water use restrictions.

The Proposition 218 notice was mailed by March 23.

Exhibit A is the draft FY16 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 2014-2015 Budget Preparation	
Review Capital Improvement Program	December 4, 2014
Budget Committee meetings	February/March 2015
Draft Budget to Board for Discussion/Action, Including Direction on Water Rates	March 5, 2015
Prop 218 Mailing for Water Rate Increase, if necessary	March 23, 2015
Draft Budget to Board for Discussion/Action	April 2, 2015
Approve Budget • Prop 218 Public Hearing on Rates	May 7, 2015

Exhibit A

Sweetwater Springs Water District

Annual Operating & Capital Improvement Budget

2015-16 Fiscal Year

(For the period July 1, 2015 - June 30, 2016)

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Board of Directors

Gaylord Schaap, President
Tim Lipinski, Vice President
Sukey Robb-Wilder, Financial Coordinator
Victoria Wikle
Richard Holmer

General Manager
Steve Mack

Sweetwater Springs Water District
Annual Operating & Capital Improvement Budget
2015-16 Fiscal Year
Summary

In Fiscal Year 2015-2016 (FY16) Sweetwater Springs Water District has budgeted operating expenses of $1.7 million and capital improvement expenses of $3.1 million. Figures 1 and 2 respectively show the distribution of these expenses and sources of funds to pay for these expenses. Note that sources of funds include approximately $600,000 from District Reserves for capital improvements. These figures do not include expenses or sources of funds for construction of the 2017 CIP for which the construction contract will be awarded in FY16 but the funds not expended until FY17 (approximately $1.0 million).

Figure 1. FY 2016 Expenses
Total = $3.7 Million
(does not include FY17 CIP construction)

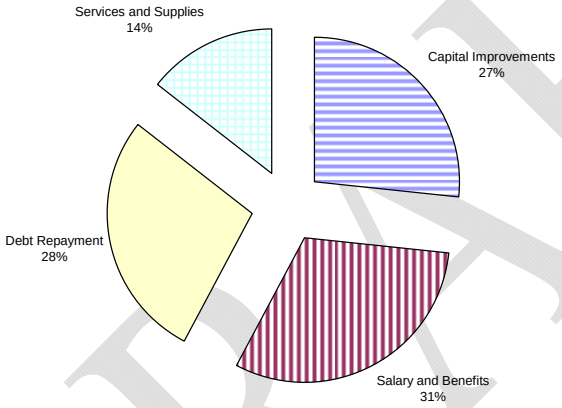
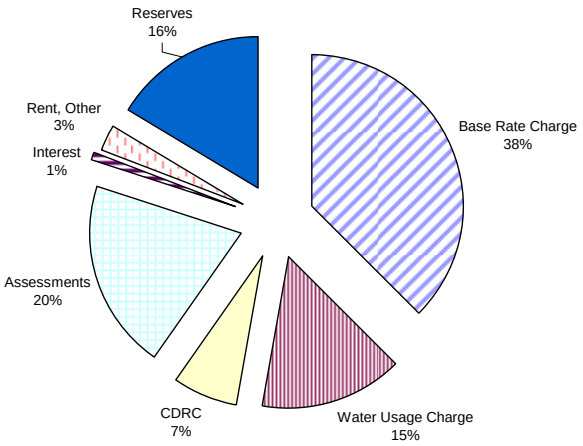


Figure 2. FY16 Sources of Funds to Pay for Expenses
Total = $3.7 Million
$3.1 Million Revenues + $600,000 Reserves



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FY 2015-16 Budget Report
Sweetwater Springs Water District

Table 1 is a summary of the FY16 Budget which is described and shown in detail in the following pages. The FY16 Budget is similar in form and content to prior years' budgets. The FY16 Budget includes the fifth year of 3% increases for the Base Rate and Water Usage Charges and the third year of a 3% increase to the Capital Debt Reduction Charge which are designed to develop sustainable capital project funding.

TABLE 1. FY 2015-16 OPERATING AND CAPITAL BUDGET SUMMARY

		FY 13-14 FINAL (CASH)*	FY14-15 BUDGET REVISED	FY 14-15 Projected	FY 15-16 BUDGET	Difference FY16-FY15 Budgets
	REVENUE					
1	OPERATING REVENUE					
2	4031 · Water Bill Revenue					
3	4031.1. · Capital Debt Reduction Cha	246,360	253,947	253,947	261,565	7,618
4	4031.1. · Water Sales - Base Rate	1,351,512	1,393,127	1,393,127	1,434,921	41,794
5	4031.1. · Water Sales - Usage Charges + Other	620,586	570,000	570,000	587,100	17,100
6	4031.1. · Total Water Sales	2,218,459	1,963,127	1,963,127	2,022,021	58,894
7	Total OPERATING REVENUE	2,218,459	2,217,074	2,217,074	2,283,586	66,512
8	Total NON-OPERATING REVENUE	107,482	113,850	123,450	110,982	(2,868)
9	**Total Income**	**2,325,941**	**2,330,924**	**2,340,524**	**2,394,568**	**63,644**
10	**EXPENSES**					
11	OPERATING EXPENSES					
12	Total Salary	770,270	813,752	812,025	837,210	23,458
13	Total Benefits	302,412	303,431	303,431	327,417	23,986
14	Total SALARY & BENEFITS	1,072,681	1,117,183	1,115,456	1,164,627	47,444
15	Total SERVICES & SUPPLIES	502,800	597,841	584,915	535,780	(62,061)
16	**Total OPERATING EXPENSES**	**1,575,482**	**1,715,024**	**1,700,371**	**1,700,407**	**(14,617)**
17	OPERATING SURPLUS/DEFICIT	**$750,459**	**$615,900**	**$640,153**	**$694,161**	**$ 78,261**
18	Total FIXED ASSET EXPENDITURES	13,766	59,000	59,000	72,000	13,000
19	Total TRANSFERS TO OTHER FUNDS	948,278	553,947	573,947	621,565	67,618
20	SURPLUS/DEFICIT	-211,585	2,953	7,206	596	(2,357)
21	**CAPITAL BUDGET**					
22	TOTAL REVENUE	2,181,390	2,035,947	2,080,947	2,038,565	2,618
23	**EXPENSES**					
24	TOTAL DEBT PAYMENTS	1,059,252	970,822	970,822	1,035,106	64,284
25	Total Capital Expenses	1,122,138	2,037,346	1,097,346	2,030,400	(6,946)
26	TOTAL EXPENSES	2,181,390	3,008,168	2,068,168	3,065,506	57,338
27	SURPLUS/DEFICIT	0	-972,221	12,779	-1,026,941	(54,720)
28	**Net Capital Funding**	412,758	348,078	372,331	349,055	977
29	**Total District Policy Reserves**	1,178,715	1,178,715	1,188,939	1,188,939	10,224
30	**TOTAL Reserves EOY**	3,683,403	2,594,683	3,517,335	2,442,556	(152,127)
31	**Reserves Above (below) Policy**	2,504,688	1,415,968	2,328,396	1,253,616	(162,352)

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2015-16 Fiscal Year (FY16) 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 for Monte Rio and environs and distributed through approximately 68 miles of distribution pipes and 3500 service laterals of varying lengths, 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 industry standards 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 FY16 Budget follows the format established in prior years and includes the fifth consecutive year of a 3% increase to the Base Rate and Water Usage Charges, and the third consecutive year of a 3% increase to the Capital Debt Reduction Charge.

3% increase to the Base Rate, Water Usage Charges, and Capital Debt Reduction Charge: Most of the revenues for the FY15 Budget come from water rates paid in bimonthly bills by District customers (Figure 2). In 2011 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 over nine years will build into $500,000 available annually for capital projects. This is the fifth year of planned 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**.**

Net Capital Funding will be approximately $350,000. Net Capital Funding is the term used for estimating the amount of funding developed in the Operating and Capital Improvement Budget for funding capital projects (line 28 in Table 1). It is the sum of the operating budget surplus, annual assessments, CDRC, and capital interest minus total debt payments. Net Capital Funding is budgeted to be flat because of depressed water sales from drought--related water use restrictions. We believe that Net Capital Funding should be near $500,000 for a sustainable capital improvement program for the District.

The current drought has a big impact on the budget planning in this and future years and that shows up in our Net Capital Funding amount. Water sales will continue to be depressed because of the California State Water Resources Control Board direction to keep water use at 80% of 2013 levels. Water use in FY 2015 is close to that level, we expect that water use in the coming fiscal year will be at a similar level, and that a 3% rate increase will result in a 3% revenue increase in water sales. We expect that once the drought restrictions are eased (we need some rain for that), water sales revenue will increase and the District will move toward reaching the $500,000 net capital funding goal.

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FY 2016 CIP and FY 2017 CIP (Table 2): The FY16 Capital Budget includes the 2016 Capital Improvement Program (CIP), which is replacement 3,900 ft of existing mainline and 75 services along Canyon 1 Road, Memory Lane, and Memory Park Road in Rio Nido, estimated to have a FY16 cost of approximately $935,000 including construction costs, and inspection and construction management.

The FY16 Budget also includes the 2017 CIP which is replacement of 2900 ft of mainline on Park Ave. and McLane Rd, 37 services and looping two deadend lines, and approximately 440 lf of main line Cherry St. (13 services). The FY17 CIP projects are included in the FY16 Budget because design will happen in FY16 and the contracts will be awarded at the end of FY16; however, most expenses for the project (estimated to cost $1,070,000 in total) will occur in FY17.

District Reserve Policy: The 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:

- Operating Budget Cash Reserve - 15% of the annual Operating Budget expenses to provide for prompt payment of operating expenses at the start of the fiscal year.
- Operating Reserve – 25% of the Operating Budget for unanticipated expenses for economic downturn or other economic crisis, or for dealing with emergencies and disaster-related expenses.
- 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 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. The FY16 Budget projects that the District will have approximately $1.25 million in Reserves Above District Policy at the end of FY16, including the obligation for the FY17 CIP. This means cash on hand in the Reserves Above District Policy will be approximately $2.5 Million at the end of FY16.

District Reserves help fund the CIP. Net capital funding, the funding available for capital projects, is expected to be approximately $350,000 for FY16 yet the FY16 CIP will cost approximately $1 million. The difference is made up by District reserves. The District intends to continue an aggressive CIP until reserves near the District Reserve Policy level, at which time the annual CIP will need to be skipped to build total reserves up. At current levels of reserves we expect that the annual CIP will need to be skipped in FY 2018.

Other Financial Assumptions/Highlights of the FY15 Budget include:

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- As noted above, we expect water sales to be similar to FY 2015 which is depressed below historical levels because of the drought water use restrictions imposed by the State Water Resources Control Board.
- Salaries are increased by 2% in anticipation of an approved, new Memorandum of Understanding with District employees and contracts for nonrepresented employees will increase in a similar manner. The actual changes will be known after the conclusion of the currently ongoing collective bargaining.
- The transfer to the Capital Improvement Revenue Fund (CIRF) is budgeted at $320,000 in FY16.

Line Item Highlights of the FY15 Budget:

The FY16 Operating Budget provides for ongoing costs consistent with previous years' expenditures, except where identified below.

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 on projected sales revenue in the Base Rate, Capital Debt Reduction Charge (CDRC) and Water Usage Charges based on flat water sales. revenue also includes a 3% increase. Operating interest is continued at a relatively low amount to reflect continuing lower interest on deposited funds.

Under **Expenses, Salaries** are budgeted to increase approximately 2% in anticipation of a new Memorandum of Understanding with represented employees currently in negotiations. **Benefits** are budgeted to increase approximately $23,000 because of a increases in medical and workers comp insurance costs. Salaries and Benefits are a major District expense – approximately 70% of the FY16 Operating Budget expenses.

Total Supplies and Services are approximately $60,000 lower than the FY15 approved revised budget. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and has been decreased because the large unanticipated well rehabilitation costs in FY15 will likely not be repeated. **Governmental Fees** and **Professional Services** are budgeted to remain flat in the coming fiscal year. **Electricity** is a big expense item and is budgeted to be the same as FY15.

Fixed Asset Expenditures is at a similar level to FY15 because the purchase of a new truck is included. There are also substantial expenses for **Tank/Facilities Sites** to replace the chlorination system for the Monte Rio System and a tank liner at the Park Avenue Tank.

The Operating Budget has a surplus of approximately $694,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Revenue Fund (CIRF) ($320,000) Building Fund ($15,000), In-House Construction Fund ($25,000), and CDRC revenue ($261,565).

The FY15 Capital Budget major expenses are the FY 2016 CIP (estimated cost $935,000) and FY 2017 CIP (estimated cost $1,070,000), described above and in Table 2.

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

Capital Debt is a major expense item – approximately $1.0 million and 27% of total District annual expenses. District Capital Debt includes:

- General Obligation (GO) Bonds – Approximately $1.6 million remain in the USDA bonds that were approved to purchase the District and make needed capital improvements, and refinanced in part in 2013 and 2014. Paid off in 2054. Annual payment - $64,284.
- Cap One Bond – The District refinanced the first 20 years of the GO Bonds in September 2013. Paid off in 2033, the FY16 payment is $566,508. Remaining principal is $7,553,000.
- State Loans - two loans for approximately $3 million which were approved in 1995-96 for needed improvements. Paid off in 2021-22. Annual payment - $170,168.50. Remaining principal is $1,185,756.
- Private Placement Loan. $3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. Annual payment - $234,012. Remaining principal is $2,432,440.

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 FY16, District Policy Reserves are at $1,188,939 and Reserves Above District Policy at the end of the year are $1,253,616**.** This includes the obligation for the FY 2017 CIP, so actual cash on hand reserves at the end of FY16 will be approximately $2.3 million.

The detailed FY16 Budget is included as Attachment A.

Table 2. Sweetwater Springs Water District 2014-2015 Capital Improvement Program (CIP)

Year	Projects	Estimated Cost
2016		
	Canyon 1 (Rio Nido) Replace approximately 3,900 ft of existing mainline and 75 services along Canyon 1 Rd., Memory Ln., Memory Park Rd	$890,000
2017	Park Ave. (GV) replace approximately 2900 lf of main line on Park Ave. and McLane, 37 services. Loop two deadend lines.	$688,000
	Cherry St. (GV) replace approximately 440 lf of main line, 13 services.	$126,000
	.	$814,000
	2015-2016 Totals	**$1,704,000**

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