SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Ed Fortner, General Manager

Meeting Date: January 2, 2020

Subject: DISCUSSION/ACTION RE REVIEW OF THE DISTRICT'S CAPITAL IMPROVEMENT PROGRAM

RECOMMENDED ACTION: Receive a presentation on the review of the 2020-2025 Capital Improvement Program (CIP) and provide direction to staff.

FISCAL IMPACT: none

DISCUSSION:

Typically, each year, we discuss the District's multi-year Capital Improvement Program (CIP) program at the December meeting, including a discussion of what has happened in the past year and what changes, if any, are needed for the program approved the prior year. We just completed replacing the green sand filters at the Monte Rio Treatment Facility with ATEC pyrolusite filters as our 2019 CIP.

The 2020-2025 CIP presented (Table 1) is the result of a comprehensive staff and Board review of the District's capital projects, augmented by the work of the ad hoc CIP Review Subcommittee. Items that the Subcommittee addressed (last year) included the selection criteria listed below:

- **Improved water quality**
- **Water losses**
- **Potential Liability**
  - **Age of Pipe**
  - **Pipe Material**
  - **Terrain**
  - **Difficulty of Repair/Maintenance**
- **Storage and pressure zone requirements**
- **Costs per service**
- ***Disaster Resilience/ Hardening (Recommended Addition)***

Each year we reconsider the capital planning model, as shown in Table 3, updating the model to include FY19 actual budget, proposed UAL funding, and the latest CIP costs placed in the year occurring. A review of Table 3 shows that the 2020-2025 proposed CIP will likely require 5% annual rate increases to avoid dipping into District Policy Reserves.

We will know more definitively what rate increases we need after the Cost of Service Study is completed, but it appears that the 3% rate increases approved for the last nine years will not be sufficient to accomplish the proposed CIP.

The decision made for CIP planning last year was to push the 2020 CIP to 2021 and skip doing a major capital project in FY 2020, 2022, and 2024. This allowed two things. The District has more time to build up reserves, and the new management (new GM and new Field Manager) had a year to consider the District approach to capital projects. Management made minor adjustments compared to what was presented in last year's District plans. Following this schedule, the plan was to have the same projects completed by FY 2025, and the District would be in a similar, comfortable reserve position with no cash flow issues in the intervening years. Unfortunately, projections did not hold given the current projections of revenue using an assumed 3% annual rate increase. As we move into the Cost of Service Study in the Spring of 2020, it seems that a 4-5% increase would allow us to keep this conservative (skipping a major project every other year) Capital Improvement Plan in place.

The FY 20-25 CIP includes construction projects at the cost of approximately $3.75 million and project costs of $1.35 million of additional, unapproved projects beyond 2025. The revised schedule to skip 2020, 2022, and 2024 is a realistic construction plan and should keep the District's reserves in good shape, assuming the 5% annual rate increase. As always, we review the CIP annually and, so far, have made adjustments to the plan nearly every year.

As stated last year, the Guernewood Park Resort (GPR) does not fit in this plan. Modeling of the District's Guerneville System last year demonstrated that the GPR, if constructed with fire-safe materials and methods, can be served by existing District facilities.

Following this Capital Improvement Plan, the District will add facilities to bring water supply to fringe areas of the District, namely the upper Summit area, the upper Schoeneman pressure zone area, and the upper Natoma Tank pressure zone area (planned for 2023). The District gets inquiries on an infrequent but regular basis about water supply to parcels in these areas that currently we cannot serve.

The recommendation is to accept the 2020-2025 CIP as described. If the rate study shows the need for a bigger rate increases than the Board supports, the plan can be further staggered by deferring projects. If the Board agrees with the approach recommended here, we will come back at the February meeting with a resolution to approve the CIP with the revised schedule.

Table 1. Sweetwater Springs Water District Proposed 2019-2025 CIP Projects by Year

Year	Projects	Estimated Cost	Cost/Service	Comments
2020	**Skip Capital Project**			
2021				
	Old River Rd from Morningside Dr to Hwy 116 (GV) - Replace ~3,200' of main with 31 services and one fire protection line.	$832,000	$26,839	Eliminate 14 lead goosenecks. Required plan by DDW by 2020. Old 6" cast iron pipe.
	Woodland Drive – mainline replacement. (GV) Replace approximately 1,900 ft of existing mainline and 27 associated services along Woodland Dr in the main pressure zone.	$494,000	$18,296	Estimated two lead goosenecks
	2021 Total	$1,326,000		
2022	**Skip Capital Project**			
2023				
	Wright Drive main pressure zone. – (GV) Replace approximately 1,120 ft of existing mainline and 18 associated services along Wright Dr. and Wright Ln.	$291,200	$16,178	
	Wright Drive upper pressure zone. – (GV) Replace approximately 3,280 ft of existing mainline and 47 associated services along Wright Dr, Glenda Dr, Natoma Dr. (requires completion of Natoma Tank and includes Edgehill Booster)	$852,800	$18,145	
	Natoma Tank – Replace the existing 10,000 gallon storage tank with a 30,000 storage tank. 2005 cost estimate (updated 2019)	$250,000	$5,319	
	2023 Total	$1,394,000		
2024	**Skip Capital Project**			
2025				
	Schoeneman pressure zone- main line replacement. (GV) Replace approximately 3,000 ft of existing mainline and 47 associated services along Highland Way, Sunset Ave, Woodland Dr, Laurel Way and Morningside Drive. (requires completion of Schoeneman Tank & Pumpstation)	$780,000	$16,596	
	Schoeneman Tank– Replace the existing 10,000 gallon tank with a 30,000 gallon storage tank. 2005 cost estimate (updated 2019)	$250,000	$5,319	
	2025 Total	$1,030,000		

	Other Projects			
	Monte Rio 8" 1,000 ft Russian River boaring.	$400,000		
	Highway 116 (MR) Replace approximately 850 ft of main line.	$280,000		
	Main St (MR) Replace approximately 800 ft of mainline along Main St.	$180,000		
	Upper Summit Tank - Construct a storage tank with a nominal capacity of approximately 120,000 gallons at the District–owned site on McLane Avenue. Project to include relocation/ construction of the existing hydro-pneumatic pump station.	$490,000		
	Total Approximate Cost of Future, Unapproved Projects	**$1,350,000**		

Table 3. OPERATING AND CAPITAL BUDGET SUMMARY Skip CIP in FY20,22,24	Sales Flat						
	Effective Rate Increase		3%				
	FY19 Actual	FY20	FY21	FY22	FY23	FY24	FY25
REVENUE							
OPERATING REVENUE							
Water Bill Revenue							
Capital Debt Reduction Charge	278,867	287,233	295,850	304,726	313,868	323,284	332,982
Base Rate	1,585,609	1,633,177	1,682,173	1,732,638	1,784,617	1,838,155	1,893,300
Water Usage	647,749	667,181	687,197	707,812	729,047	750,918	773,446
Total Water Sales	2,233,358	2,300,358	2,369,369	2,440,450	2,513,664	2,589,074	2,666,746
Total OPERATING REVENUE	**2,512,225**	**2,587,592**	**2,665,219**	**2,745,176**	**2,827,531**	**2,912,357**	**2,999,728**
NON-OPERATING REVENUE							
1700 · Interest	10,900	10,900	10,900	10,900	10,900	10,900	10,900
xxxx - Policy Reserve Loan Proceeds		500,000	500,000				
3600 · Construction New Services	6,978	6,978	6,978	6,978	6,978	6,978	6,978
3601 · Construction Service Upgrades	10,384	10,384	10,384	10,384	10,384	10,384	10,384
4032 · Rent	105,717	107,832	109,988	112,188	114,432	116,720	119,055
4040 · Miscellaneous Income	2,745	2,745	2,745	2,745	2,745	2,745	2,745
4117 · SCWA Reimbursement	3,482		0	0	0	0	0
Total NON-OPERATING REVENUE	**140,206**	**638,838**	**640,995**	**143,195**	**145,438**	**147,727**	**150,062**
Total Income	2,652,431	3,226,430	3,306,214	2,888,371	2,972,970	3,060,084	3,149,790
EXPENSES		**New GM**					
OPERATING EXPENSES							
SALARY & BENEFITS							
Salary							
5910 · Wages	835,923	852,641	869,694	887,088	904,830	922,926	941,385
5912 · Overtime	36,645	37,378	38,126	38,888	39,666	40,459	41,268
5916 · On-Call Pay	35,788	36,504	37,234	37,979	38,738	39,513	40,303
5918 · Extra help - Contract	37,047	37,788	38,543	39,314	40,101	40,903	41,721
Total Salary	**945,403**	**1,006,400**	**1,026,528**	**1,047,059**	**1,068,000**	**1,089,360**	**1,111,147**
Benefits							
5920 · Retirement	67,856	96,845	98,782	100,758	102,773	104,828	104,829
5922 · Payroll Taxes - Employe	14,603	18,115	18,478	18,847	19,224	19,608	20,001
Retirement - UL	125,451	55,000	32,000				
5930 · Health/Dental/Vision/AF	185,364	194,632	204,363	214,582	225,311	236,576	248,405
5931 · Retiree health	7,842	8,077	8,320	8,569	8,826	9,091	9,364
5940 · Workers Comp Insuranc	27,297	27,297	27,297	27,297	27,297	27,297	27,297
Total Benefits	**428,413**	**441,265**	**454,503**	**468,138**	**482,182**	**496,648**	**511,547**
SALARY & BENEFITS	**1,373,815**	**1,520,768**	**1,481,031**	**1,515,197**	**1,550,182**	**1,586,007**	**1,622,694**
Unfunded Liability Increase		**500,000**	**500,000**				
SERVICES & SUPPLIES increase =							
SERVICES & SUPPLIES	**577,738**	**620,630**	**626,836**	**633,105**	**639,436**	**645,830**	**652,288**
TOTAL OPERATING EXPENSES	1,951,553	2,141,395	2,607,867	2,148,301	2,189,618	2,231,838	2,274,982
OPERATING SURPLUS/DEFICIT	**$700,878**	**$558,155**	**$698,347**	**$740,069**	**$783,352**	**$828,247**	**$874,807**
FIXED ASSET EXPENDITURES							
8517 · Field/Office equipment		5,000	1,000	5,000	1,000	5,000	5,000
8573 · Vehicles	45,037	35,000		35,000		35,000	35,000
8511.1 · Tank/Facilities Sites	(531)	200,000	10,000		10,000		
Loan Payment to Policy Reserves			135,000	135,000	135,000	135,000	135,000
FIXED ASSET EXPENDITURES	**44,506**	**240,000**	**146,000**	**175,000**	**146,000**	**175,000**	**175,000**
TRANSFERS TO OTHER FUNDS							
Tfers to CIRF for CDR Revenue	288,172	287,233	295,850	304,726	313,868	323,284	332,982
Tfers to CIRF	210,000	-	216,000	220,000	283,000	289,000	326,000
8620.5 · Tfers to Building Fund	15,000	15,000	15,000	15,000	15,000	15,000	15,000
8620.2 · Tfers to In-House Constr	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Total TRANSFERS TO OTHER FUNDS	538,172	327,233	551,850	564,726	636,868	652,284	698,982
Total DISASTER EXPENSE		0	0	0	0	0	0
SURPLUS/DEFICIT	**118,200**	**-9,078**	**497**	**344**	**484**	**963**	**825**

Capital Budget					5%	FY19 Actual	FY20	FY21	FY22	FY23	FY24	FY25
REVENUE/SOURCES OF FUNDS												
	Net Operating Revenues**					210,000	-14,656	309,404	365,284	484,481	551,283	652,992
	Assessments					764,591	764,591	764,591	764,591	764,591	764,591	764,591
	Capital Debt Reduction Charge***					288,172	292,811	307,451	322,824	338,965	355,913	373,709
	Capital Interest					39,902	35,000	35,000	35,000	35,000	35,000	35,000
	Transfers From CIRF/Reserves					210,000		305,000	360,000	480,000	545,000	650,000
		USDA Loan				1,535,000						
TOTAL REVENUE						3,047,665	1,077,746	1,721,447	1,847,699	2,103,037	2,251,787	2,476,292
EXPENSES									State Loan Done			
	Total Debt Payments					1,013,064	1,013,064	1,013,064	866,325	866,325	866,325	866,325
						CIP 18, 19	No Project	2021 CIP	No Project	2023 CIP	2024 CIP	2025 CIP
	Annual CIP					1,232,225		1,326,000		1,394,000		1,030,000
	In-House Construction Projects, etc.					67,908	40,000	40,000	40,000	40,000	40,000	40,000
TOTAL EXPENSES						2,313,197	1,053,064	2,379,064	906,325	2,300,325	906,325	1,936,325
SURPLUS/DEFICIT						734,468	24,682	-657,617	941,374	-197,288	1,345,462	539,967
FUND AND LOAN BALANCES (EOY)												
	Beg Funds above District Reserve Policy						1,759,797	1,784,479	821,862	1,403,236	725,948	1,526,410
	Ending Funds ab District Policy (DP)					1,759,797	1,784,479	821,862	1,403,236	725,948	1,526,410	1,416,376
	Funds ab DP and Debt Payments					746,733	771,415	(191,202)	536,911	(140,377)	660,085	550,051
NET CAPITAL FUNDING****						289,601	64,682	403,383	621,374	756,712	840,462	959,967

* Starting values based on actual FY17 EOY

** =Transfer to CIRF plus net operating surplus

*** =Transfers from CDRC

**** =Net Operating Revenues + Assessments + CDRC + Capital Interest - Total Debt Payments

Capital Budget					4%	FY19 Actual	FY20	FY21	FY22	FY23	FY24	FY25
REVENUE/SOURCES OF FUNDS												
	Net Operating Revenues*					210,000	-11,867	262,727	292,117	382,533	418,111	485,989
	Assessments					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Capital Debt Reduction Charges**					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Capital Interest					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Transfers From CIRF/Reserves					[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		USDA Loan				[illegible]						
TOTAL REVENUE						[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXPENSES									State Loan Done			
	Total Debt Payments					1,013,064	1,013,064	1,013,064	866,325	866,325	866,325	866,325
						CIP 18-19	No Project	2021 CIP	No Project	2023 CIP	2024 CIP	2025 CIP
	Annual CIP					1,232,225		1,326,000		1,394,000		1,030,000
	In-House Construction Projects, etc.					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL EXPENSES						[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SURPLUS/DEFICIT						734,468	24,682	-755,123	789,871	-416,965	1,068,661	182,111
FUND AND LOAN BALANCES (EOY)												
	Beg Funds above District Reserve Policy						1,759,797	1,784,479	769,356	1,268,427	476,462	1,127,123
	Ending Funds ab District Policy (DP)					1,759,797	1,784,479	769,356	1,268,427	476,462	1,127,123	829,234
	Funds ab DP and Debt Payments					746,733	771,415	(243,708)	402,102	(389,863)	260,798	(37,091)
NET CAPITAL FUNDING***						289,601	64,682	350,877	539,071	642,035	690,661	772,111

* Starting values based on actual FY17 EOY

** =Transfer to CIRF plus net operating surplus

*** =Transfers from CDRC

**** =Net Operating Revenues + Assessments + CDRC + Capital Interest - Total Debt Payments

Capital Budget	3%	FY19 Actual	FY20	FY21	FY22	FY23	FY24	FY25
REVENUE/SOURCES OF FUNDS								
Net Operating Revenues**		210,000	-9,078	216,497	220,344	283,484	289,963	326,825
Assessments		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital Debt Reduction Charge***		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital Interest		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transfers From CIRF/Reserves		[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USDA Loan		[illegible]						
TOTAL REVENUE		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXPENSES					State Loan Done			
		CIP 18-19	No Project	2021 CIP	No Project	2023 CIP	2024 CIP	2025 CIP
Annual CIP		1,232,225		1,326,000		1,394,000		1,030,000
In-House Construction Projects, etc.		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL EXPENSES		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ending Funds ab District Policy (DP)		1,759,797	1,784,479	717,353	1,135,689	232,307	738,820	261,893
Funds ab DP and Debt Payments		746,733	771,415	(295,711)	269,364	(634,018)	(127,505)	(604,432)
NET CAPITAL FUNDING****		289,601	64,682	298,874	458,335	530,618	546,513	593,073

* Starting values based on actual FY17 EOY

** =Transfer to CIRF plus net operating surplus

*** =Transfers from CDRC

**** =Net Operating Revenues + Assessments + CDRC + Capital Interest - Total Debt Payments