SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: April 4, 2013

SUBJECT: FY 2013-2014 DRAFT BUDGET

RECOMMENDED ACTION: Receive a report on the Draft District FY 2013-2014 Budget, including the draft Budget Report, and provide direction to staff.

FISCAL IMPACT: None

DISCUSSION:

The draft FY 2013-2014 (FY14) Budget was presented at the March meeting. At the meeting we discussed long-term budget issues and the line item details of the proposed FY14 Budget. During the discussion several items were highlighted, among them was the projection of water sales revenues. Highlights of the FY14 Budget include:

- A 3% increase in the Water Usage, Base Rate and Capital Debt Reduction Charges.
- Water sales are projected to be flat.
- This is the first year since FY08 that Redevelopment funding assistance is not included.
- The capital projects to be constructed in FY14 include Hidden Valley Road and Guernewood Lane. The FY15 capital project, Old Monte Rio Road, will be designed and construction contract award expected in FY 14.
- The savings from the proposed USDA Bonds refinancing is not included in this budget.

The Proposition 218 notice was mailed during the week of March 15. As of the date the writing of this report (March 28), 56 protests have been received.

Exhibit A is the draft FY14 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 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	March 18, 2013
Draft Budget to Board for Discussion/Action	April 4, 2013
Approve Budget • Prop 218 Public Hearing on Rates	May 2, 2013

Exhibit A

Sweetwater Springs Water District

Annual Operating & Capital Improvement Budget

2013-14 Fiscal Year

(For the period July 1, 2013 - June 30, 2014)

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Board of Directors

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

General Manager
Steve Mack

Sweetwater Springs Water District
Annual Operating & Capital Improvement Budget
2013-14 Fiscal Year
Summary

Table 1 is a summary of the Fiscal Year 2013-2014 (FY14) Budget which is described and shown in detail in the following pages. The FY14 Budget is similar in form and content to prior years' budgets. The FY14 Budget includes the third year of 3% increases for the Base Rate and Water Usage Charges and a 3% increase to the Capital Debt Reduction Charge.

TABLE 1. FY14 DRAFT BUDGET SUMMARY								
OPERATING BUDGET								
				FY 11-12 FINAL (CASH)*	FY12-13 BUDGET	FY 12-13 Projected	FY 13-14 BUDGET	Difference FY14-FY13 Budgets
REVENUE								
	OPERATING REVENUE							
		4031 · Water Bill Revenue						
			4031.1. · Capital Debt Reduction Charge	236,887	230,000	238,600	245,800	15,800
			4031.1. · Base Rate	1,279,036	1,248,930	1,293,290	1,332,100	83,170
0.70			4031.1. · Water Usage	560,823	547,620	655,470	675,100	127,480
	Total OPERATING REVENUE			2,076,746	2,026,550	2,187,360	2,253,000	226,450
	Total NON-OPERATING REVENUE			125,888	133,000	110,500	93,400	(39,600)
Total Income				2,202,634	2,159,550	2,297,860	2,346,400	186,850
EXPENSES								
	OPERATING EXPENSES							
		SALARY & BENEFITS						
			Total Salary	797,615	852,696	804,000	794,590	(58,106)
			Total Benefits	271,470	295,452	290,960	316,415	20,963
		Total SALARY & BENEFITS		1,069,085	1,148,148	1,094,960	1,111,005	(37,143)
		Total SERVICES & SUPPLIES		460,192	485,930	524,670	520,930	35,000
	Total OPERATING EXPENSES			1,529,277	1,634,078	1,619,630	1,631,935	(2,143)
OPERATING SURPLUS/DEFICIT				$673,357	$525,472	$678,230	$714,465	$ 188,993
	Total FIXED ASSET EXPENDITURES			5,841	20,000	19,500	22,000	2,000
	Total TRANSFERS TO OTHER FUNDS			516,900	490,000	648,600	675,800	185,800
	Total DISASTER EXPENSE			0	0	0	0	-
SURPLUS/DEFICIT				150,616	15,472	10,130	16,665	1,193
CAPITAL BUDGET								
REVENUE/SOURCES OF FUNDS								
	Total Assessments			730,176	777,000	766,192	777,000	
	Capital Debt Reduction Charge			236,900	230,000	238,600	245,800	15,800
	Interest			36,339	25,000	23,600	25,000	-
	Total CDC Grants			672,089	914,250	914,250		
	Funds from Reserves			740,169		380,000	1,525,000	
	Total Transfers from Operations			265,000	245,000	395,000	415,000	
	TOTAL REVENUE			2,680,673	2,191,250	2,717,642	2,987,800	796,550
EXPENSES								
	TOTAL DEBT PAYMENTS			1,089,755	1,091,314	1,091,314	1,091,314	-
		Total Capital Expenses		1,323,072	2,836,000	1,609,751	1,877,149	(958,851)
	TOTAL EXPENSES			2,412,827	3,927,314	2,701,065	2,968,463	(958,851)
	SURPLUS/DEFICIT			267,846	-1,736,064	16,577	19,337	1,755,401
FUND AND LOAN BALANCES (EOY)								
DISTRICT RESERVES AND FUND AND LOAN BALANCES								
Total District Policy				1,085,081	1,131,348	1,131,348	1,130,812	(536)
TOTAL Reserves EOY				4,791,350	3,018,140	4,092,335	2,565,728	(452,412)
Reserves Above (below) Policy				3,706,269	1,886,792	2,960,987	1,434,916	(451,876)

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Summary of FY14 Revenues and Expenses. Figures 1 and 2 respectively show District FY14 sources of funds and expenses. Note that sources of funds are enhanced by approximately $700,000 from District Reserves for capital improvements. These Figures do not include sources of funds or expenses for construction of the 2015 CIP for which the construction contract will be awarded in FY14 but the funds not expended until FY15 (approximately $800,000).

Figure 1. FY 2014 Sources of Funds
Total = $3.1 Million Revenues + $690,000 Reserves

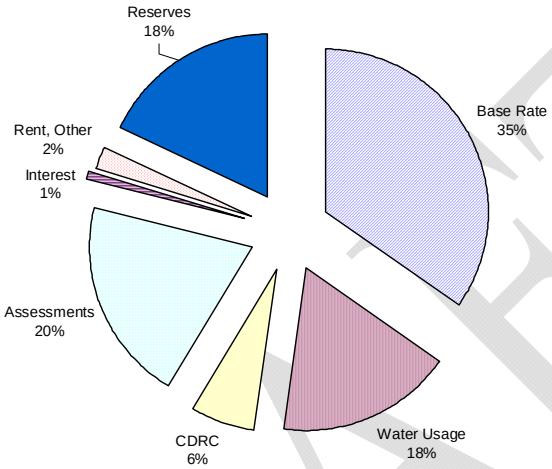
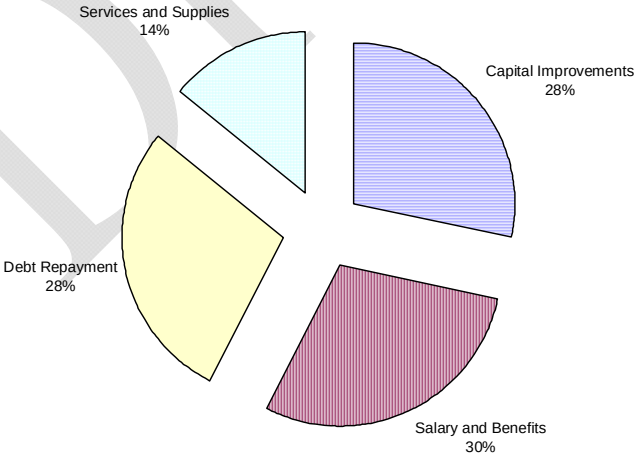


Figure 2. FY 2014 Expenses
Total = $3.8 Million
(does not include FY15 CIP construction)



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2013-14 Fiscal Year (FY14) 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 FY14 Budget follows the format established in prior years and includes the third year of a 3% increase to the Base Rate, Water Usage Charges, and 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 FY14 Budget come from water rates paid in bimonthly bills by District customers (Figure 1). 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 will build into $500,000 available annually for capital projects. This is the third year of proposed annual 3% rate increases designed to achieve the sustainable capital improvement program.

The District had planned for a steeper increase to the Capital Debt Reduction Charge to enable it to cover all District debt payments within 3 years. However, the District decided to treat the Capital Debt Reduction Charge in the same manner as the Base Rate Charge (both are fixed rates based on meter size or number of housing units) and increase it in the same manner. 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 2014 CIP and FY 2015 CIP (Table 2): The FY14 Capital Budget includes the 2014 Capital Improvement Program (CIP), which is **r**eplacement of 3,900 lineal feet (lf) of existing main and appurtenances on Hidden Valley Rd, with 67 services, 2 fire hydrants; and 1,800 lf of existing main and appurtenances on Guernewood Lane, and abandonment of 200 lf of redundant 4–inch main along Hwy 116, with 20 services, 2 fire hydrants**.**

The FY14 Budget also includes the obligation for funding construction of the FY 2015 CIP, which is 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 have a total cost of approximately $936,000. This expense is included in the FY14 Budget because the construction contract would be obligated in May or June of the fiscal year. However, most of the expense will occur in FY15.

Because of the end of Redevelopment the annual CIP has been scaled back based on program review during this past year. The District intends to continue to improve the District's infrastructure, but the end of Redevelopment and lack of alternative grant funding means we have to do it more slowly.

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. The Draft FY14 Budget projects that the District will have approximately $1.4 million in Reserves Above District Policy at the end of FY14, including the obligation for the FY15 CIP. This means cash on hand in the Reserves Above District Policy will approximately $2.2 Million at the end of FY14.

Other Financial Assumptions/Highlights of the FY14 Budget include:

- Water Sales will be flat in FY14 – our assumption is that a 3% rate increase will result in a 3% revenue increase in water sales.
- The presentation of Water Sales Revenue splits out Base Rate Charge Revenues and Water Usage Charge Revenues. This enables better tracking of the fixed revenues from the bimonthly water bills from the variable revenues based on water usage.
- Salaries are increased to match the approved Memorandum of Understanding and contracts for nonrepresented employees but also include the savings of the General Manager moving to partial retirement.
- The transfer to CIRF is budgeted at $390,000 in FY14.
- Approximately $14,000 is included in the Budget to cover the District's unfunded liability for retired employee health care.

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Line Item Highlights of the FY14 Budget:

The FY14 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 in the Base Rate and Water Usage Charges based on flat water sales. **Capital Debt Reduction Charge** (CDRC) 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** have decreased approximately $58,000 to reflect the partial service retirement of the General Manager. **Benefits** are budgeted to increase approximately $20,000 because of an anticipated increase in the cost of health benefits. Salaries and Benefits are a major District expense – approximately 70% of the FY14 Operating Budget expenses.

Total Supplies and Services are approximately $35,000 higher than the FY13 approved budget. There are small increases in several line items to reflect higher costs. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and has been increased to reflect the projected costs in FY13 which will likely be similar for FY14. **Governmental Fees** have been increased to reflect higher fees being charged by all levels of government. **Professional Services** has increased to reflect staff's estimate of realistic legal expenses. **Electric** is a big expense item and is expected to have a small increase in FY14 ($900).

Fixed Asset Expenditures has been reduced but the District will likely carry over the expense for the purchase of a replacement chlorination system for the Monte Rio Treatment Plant.

The Operating Budget has a surplus of approximately $677,000 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 FY14 Capital Budget major expenses are the FY 2014 CIP (estimated cost $900,000) and FY 2015 CIP (estimated cost $900,000), 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 28% of total District annual expenses. District Capital Debt includes:

- General Obligation (GO) 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. The District is investigating the possibility of refinancing these bonds with an estimated annual savings of approximately $55,000. If possible this would not be completed prior to approval of the FY14 Budget and is not included in the Budget.

- 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.

The Private Placement Loan of $3 million acquired in September 2008 has been completely 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 FY14, District Policy Reserves are at $1,130,812 and Reserves Above District Policy at the end of the year are $1,434,916**.** This includes the obligation for the FY 2015 CIP, so actual cash on hand reserves at the end of FY14 will be approximately $2.2 million.

Table 2. Sweetwater Springs Water District 2013-2014 Capital Improvement Program (CIP)

Year	Projects	Estimated Cost
2014		
	Hidden Valley Rd (GV) – Replace 3,900 lf of existing main and appurtenances on Hidden Valley Rd, 67 services.	$656,000
	Guernewood Lane (GV) - – Replace 1,800 lf of existing main and appurtenances and abandon 200 lf of redundant 4 – inch main along Hwy 116, 20 services.	$318,000
	2014 Total	**$974,000**
2015		
	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
	2015 Total	$936,000
	2014-2015 Totals	**$1,910,000**

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