SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: April 5, 2018

SUBJECT: DRAFT FY 2018-2019 BUDGET REPORT

RECOMMENDED ACTION: Receive the draft Budget Report and discuss any outstanding issues regarding the Draft District FY 2018-2019 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 2018-2019.

DISCUSSION:

The draft FY 2018-2019 (FY19) 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 FY19 Budget. During the discussion several items were highlighted, among them was the projection of water sales revenues. Highlights of the FY19 Budget include:

- A 3% increase in the Water Usage, Base Rate and Capital Debt Reduction Charges. This is the eighth 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 funded and constructed in FY19 is replacement of the green sand filter at the Monte Rio Treatment Plant.

- Net Capital Funding will be approximately $430,000. 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 We believe that Net Capital Funding should be near $500,000 for a sustainable capital improvement program for the District..

The Proposition 218 notices were mailed by March 19. 3,688 notices were mailed. As of March 29, 48 protests have been received.

Exhibit A is the draft FY19 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. Please review the report and provide comments to staff either at the meeting or via email.

Table 1. FY 2018-2019 Budget Preparation	
Reviewed/Approved Capital Improvement Program	December 7, 2017
Introduce Budget Process	January 4, 2018
Budget Committee meetings	January - March 2018
Draft Budget to Board for Discussion/Action, Including Direction on Water Rates	March 1, 2018
Prop 218 Mailing for Water Rate Increase, if necessary	March 19, 2018
Draft Budget to Board for Discussion/Action	April 5, 2018
Approve Budget • Prop 218 Public Hearing on Rates	May 3, 2018

Exhibit A

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Sweetwater Springs Water District

Annual Operating & Capital Improvement Budget

2018-19 Fiscal Year

(For the period July 1, 2018 - June 30, 2019)

Board of Directors

Pip Marquez de la Plata, President
Tim Lipinski, Vice President
Richard Holmer, Financial Coordinator
Sukey Robb-Wilder
Gaylord Schaap

General Manager
Steve Mack

Sweetwater Springs Water District

Annual Operating & Capital Improvement Budget

2018-19 Fiscal Year

Summary

In Fiscal Year 2018-2019 (FY19) Sweetwater Springs Water District has budgeted operating expenses of $1.9 million, debt repayment of $1.0 million, and capital improvement expenses of $250,000. Figures 1 and 2 respectively show the distribution of these expenses and sources of funds to pay for these expenses.

Figure 1. FY 2019 Expenses
Total = $3.2 Million

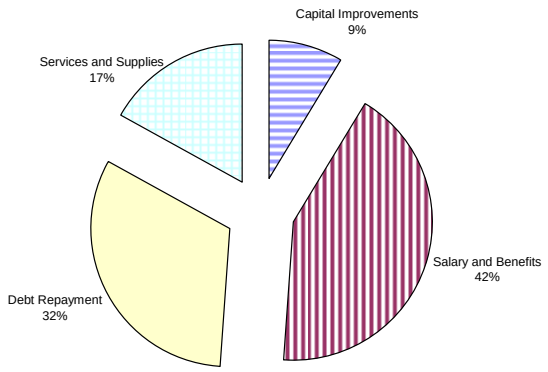
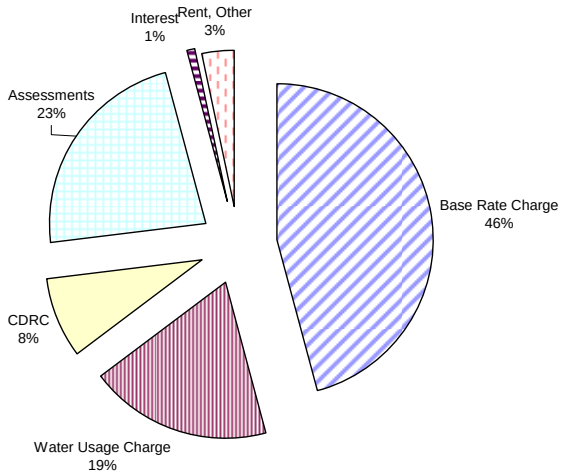


Figure 2. FY19 Sources of Funds to Pay for Expenses
Total = $3.4 Million



FY 2018-19 Budget Report
Sweetwater Springs Water District

Table 1 is a summary of the FY19 Budget which is described in detail in the following pages. The FY19 Budget is similar in form and content to prior years' budgets. The FY19 Budget includes the eighth year of 3% increases for the Base Rate and Water Usage Charges and the sixth year of a 3% increase to the Capital Debt Reduction Charge which are designed to develop sustainable capital project funding.

	DRAFT FY 2018-19 OPERATING BUDGET SUMMARY				
		FY 16-17 FINAL (CASH)*	FY17-18 BUDGET	FY 17-18 Projected	FY 18-19 BUDGET	Difference FY19-FY18 Budgets
	REVENUE					
	OPERATING REVENUE					
	4031 · Water Bill Revenue					
1	4031.1. · Capital Debt Reduction Cha	270,660	278,615	279,779	288,172	9,557
2	4031.1. · Water Sales - Base Rate	1,487,836	1,528,520	1,511,808	1,557,162	28,642
3	4031.1. · Water Sales - Usage Charges + Other	547,418	575,358	619,588	638,176	62,818
4	4031.1. · Total Water Sales	2,035,254	2,103,878	2,131,396	2,195,338	91,460
5	Total OPERATING REVENUE	2,305,913	2,382,493	2,411,175	2,483,510	101,017
6	Total NON-OPERATING REVENUE	138,454	119,600	118,990	121,600	2,000
7	Total Income	2,444,367	2,502,093	2,530,165	2,605,110	103,017
8	EXPENSES					
9	OPERATING EXPENSES					
10	SALARY & BENEFITS					
11	Total Salary	881,298	905,120	900,600	914,370	9,250
12	Total Benefits	381,545	395,180	426,832	419,212	24,032
13	Total SALARY & BENEFITS	1,262,843	1,300,300	1,327,432	1,333,582	33,282
14	SERVICES & SUPPLIES					
15	Total Communications	21,132	24,020	24,020	25,080	1,060
16	Total Insurances	30,745	33,000	33,000	33,000	-
17	Total Maint/Rep - Office & Vehicles	17,395	18,900	22,100	21,300	2,400
18	Total Maint/Repair - Facilities	125,262	112,000	102,800	100,445	(11,555)
19	Total Miscellaneous Expenses	44,074	31,300	22,800	35,000	3,700
20	Total Office Expense	31,864	32,200	30,900	32,600	400
21	Total Operating Supplies	21,799	24,700	25,700	26,200	1,500
22	Total Professional Services	77,235	90,500	85,300	89,500	(1,000)
23	Total Rents & Leases	29,937	33,090	33,090	33,090	-
24	Total Transportation & Travel	25,012	32,050	27,050	29,050	(3,000)
25	Total Uniforms	3,029	3,240	3,440	3,540	300
26	Total Utilities	103,123	98,000	98,000	103,000	5,000
27	Total SERVICES & SUPPLIES	530,607	533,000	508,200	531,805	(1,195)
28	Total OPERATING EXPENSES	1,793,450	1,833,300	1,835,632	1,865,387	32,087
29	OPERATING SURPLUS/DEFICIT	$650,918	$668,793	$694,533	$739,723	$ 70,930
30	Total FIXED ASSET EXPENDITURES	40,652	22,000	54,000	50,000	28,000
31	Total TRANSFERS TO OTHER FUNDS	690,767	638,615	639,779	688,172	49,557
32	SURPLUS/DEFICIT	-80,501	8,178	754	1,551	(6,627)
33						
34	CAPITAL BUDGET					
35	REVENUE/SOURCES OF FUNDS					
36	TOTAL REVENUE	2,221,982	2,871,615	2,995,779	1,465,172	(1,406,443)
37	EXPENSES					
38	TOTAL DEBT PAYMENTS	1,136,580	1,011,244	1,009,260	999,142	(12,102)
39	Total Capital Expenses	116,486	1,488,000	1,976,087	275,000	(1,213,000)
40	TOTAL EXPENSES	1,253,066	2,499,244	2,985,347	1,274,142	(1,225,102)
	SURPLUS/DEFICIT	968,916	372,371	10,432	191,030	(181,341)
41	Net Capital Funding	171,516	380,549	382,273	442,581	
42	FUND AND LOAN BALANCES (EOY)					
43	DISTRICT RESERVES AND FUND AND LOAN BALANCES					
44	Operating Budget Cash Reserve	255,161	274,995	274,995	279,808	4,813
45	Operating Budget Reserve (10%+15% of Operating Exp)	86,956	458,325	458,325	466,347	8,022
46	Debt Repayment Reserve (25% of Debt pmt)	258,777	252,811	252,811	249,786	(3,026)
47	Capital Reserve	250,000	250,000	250,000	250,000	-
48	Total District Policy	850,894	1,236,130	1,236,131	1,245,940	9,810
49	TOTAL Reserves EOY	2,259,513	2,232,430	2,031,131	2,410,774	178,344
50	Reserves Above (below) Policy	1,408,619	996,300	795,000	1,164,834	168,534

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2018-19 Fiscal Year (FY19) 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 FY19 Budget follows the format established in prior years and includes the eighth consecutive year of a 3% increase to the Base Rate and Water Usage Charges, and the sixth 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: A principal source of revenues for the FY19 Budget is 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 eighth 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 $430,000. 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 41 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 increase because of decreased debt payments and reduced operations expenses, plus the effect of the 3% water rate increase. We believe that Net Capital Funding should be near $500,000 for a sustainable capital improvement program for the District.

The recent drought has had a big impact on the budget planning in this and future years. Water sales will continue to be depressed as water use habits recover from the drought restrictions required by the State. Water use in FY 2017 was lower than State direction even though that the required restrictions have been lifted - approximately 86% of 2013 which is the State Board standard. 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 customer use rebounds from the drought

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restrictions, water sales revenue will increase and the District will move more quickly toward reaching the $500,000 net capital funding goal.

FY 2019 CIP (Table 2): The FY19 Capital Budget has replacement of the green sand filter at the Monte Rio Treatment Plant. The FY18 Budget included the 2018 CIP, funded by a USDA bond. This project is the completion of the River Road/Old River Project and construction of this project will carryover into FY19.

Addressing CalPERS retirement program Unfunded Accrued Liability (UAL): The FY19 Budget continues the line item to identify and make accelerated payments for the CalPERS UAL. The Board has determined that this item needs special attention as it will continue to impact District finances for many years. The FY19 payment is $105,000.

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. **For FY19, District Policy Reserves are at $1,245,940 and Reserves Above District Policy at the end of the fiscal year are $1,164,834, with total reserves at $2,410,774**.

Other assumptions used to develop the Operating section of the Budget include:

- **Water Usage and Base Rate and Capital Debt Reduction Charges will be raised 3%.**
- **Water Usage revenues are based on flat water sales and on mid-year water sales projections, thus the FY19 water usage revenues are estimated to increase by 3% over the amount projected at the end of FY18. The drought is over but it will likely take a while for sales to start increasing, thus affecting Water Usage charge revenue.**
- **Salaries and Retirement have been adjusted to reflect year 4 of the 2015 Union Memorandum of Understanding.**

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Line Item Highlights of the FY19 Budget:

The FY19 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. The 3% water rate increase will increase District revenues by approximately $90,000. 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%. **Benefits** are budgeted to increase approximately $24,000 over the budgeted FY18 budget largely because of increased health insurance premiums. Salaries and Benefits are a major District expense – approximately 70% of the FY19 Operating Budget expenses.

Total Supplies and Services are approximately $1,000 lower than the FY18 approved budget. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and is budgeted to increase by $2,400 for FY19. **Governmental Fees** and **Professional Services** are budgeted to decrease by $1,000. **Electricity** is a big expense item, is budgeted to be $5,000 more than FY18, and is the major expense difference in this category.

Fixed Asset Expenditures are higher than FY18 because we are purchasing a truck this year. There are also substantial expenses for **Tank/Facilities Sites** to repair District tanks.

The Operating Budget has a surplus of approximately $688,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Revenue Fund (CIRF) ($360,000) Building Fund ($15,000), In-House Construction Fund ($25,000), and CDRC revenue ($288,172).

The FY19 Capital Budget major capital expense is replacement of the green sand filter at the Monte Rio Treatment Plant, described in Table 2.

Capital Interest revenue has been reduced to reflect expected continuing low interest rates and lower fund amounts in this coming year.

Capital Debt is a major expense item – approximately $1.0 million and 32% of total District annual expenses in FY19. The District has worked hard to keep interest rates as low as possible with 3 refinancings in the past 5 years during the favorable interest rate climate. 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 2014 with an interest rate of 2.375%. Annual payment - $64,284, remaining principal is $1,596,984. Paid off in 2054.

- Cap One Bond – The District refinanced the first 20 years of the GO Bonds in September 2013 with an interest rate of 3.6%. Paid off in 2033, the FY19 payment is $563,194. Remaining principal is $6,620,000.
- State Loans - two loans for approximately $3 million which were approved in 1995-96 for needed improvements. The smaller loan was paid off in September 2016; the second loan will be completed in 2022. Annual payment - $146,619. Remaining principal is $676,857.
- Private Placement Loan. $3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. The interest rate for this loan reset in 2018 and will be reduced from 4.75% to 3.10%, reducing the annual payment by approximately $18,000. Annual payment in FY19 - $225,045. Remaining principal is $2,055,241.

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 FY19, District Policy Reserves are at $1,245,940 and Reserves Above District Policy at the end of the fiscal year are $1,164,834 with total reserves at $2,410,774**.**

The detailed FY19 Budget is included as Attachment A.

Table 2. Sweetwater Springs Water District 2018-2019 Capital Improvement Program (CIP)

Year	Projects	Estimated Cost
2018		
	Phase 2 and 3, Old River Road/River Road Project (GV) - replace approximately 4,600 ft of existing main and 58 services on Old River Rd at Morningside east to the eastern section of Foothill Drive and include Orchard Rd and Foothill Drive.	$1,200,000
2019		
	Replace green sand filter at Monte Rio Treatment Plant (MR)	$250,000

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