# SWEETWATER SPRINGS WATER DISTRICT

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

**FROM:** Steve Mack, General Manager

**Meeting Date: December 6, 2018**

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

**RECOMMENDED ACTION:** Receive a presentation on the review of the 2018-2024 Capital Improvement Program (CIP). and provide direction to staff.

**FISCAL IMPACT:** none

**DISCUSSION:**

Typically, every 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 to the program approved the prior year. In the past two and a half years we have changed our minds on our approach to the CIP as we learned more of our financial situation and of our capital project needs. We first decided to build the River Road/Old River Road Project in full to replace the aging cast iron pipe that supplies water to Rio Nido, and we secured a USDA loan/bond to pay for it. We slowed down on that approach because the USDA bond did not include the grant we were hoping for. We decided to self fund the River Road/Old River Road project, split the project into three parts, and agreed to construct the project over five years, skipping projects in alternate years. Then in the Spring of 2017 we realized our financial situation would be improved if we used the USDA bond so we recombined Phases 2 and 3 and made that the 2018 CIP using the USDA bond to fund it. That project is now completed and we are working on replacing the green sand filter at the Monte Rio Treatment Facility as our 2019 CIP.

One change from last year's discussion is that the USDA bond funds did not come available until the completion of the project and thus we have needed to use interim financing. That has had no bearing on the completion of the project and the District's overall financial position, but it has added some extra costs and quite a bit of extra background, non-construction-related work to the project.

The 2019-2024 CIP approved at the December 2017 Board meeting (Table 1) was result of these experiences and 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 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**

The projects included in last year's CIP were rescheduled based on our information on available funds and expected costs of projects at the time last year. As in every year we redo the capital planning model, as shown in Table 3, updating the model to include FY18 actual budget, proposed UAL funding, and the latest CIP costs placed in the year occurring. A review of Table 3 shows that holding to this schedule the District will go below District Policy in FY 2020 and FY 2021 and it will be tight to make debt payments at the beginning of those fiscal years - cash flow would be an issue.

An alternative would be to push the 2020 CIP to 2021 and skip doing a major capital project in FY 2020 and 2022. This will allow two things (at least): the District will have more time to build up reserves and the new management (new GM and new Field Manager) will have a year to consider the District approach to capital projects - they may have ideas for a different approach than what is presented in current District plans. Following this schedule, the same projects will be completed by FY 2024 and the District will be in a similar, comfortable reserve position with no cash flow issues in the intervening years. The downside will be that capital projects will be pushed off some, but these projects do not have the urgency that the River Road project had for us.

The FY 18-24 CIP includes construction of approximately $2.8 million of new, scheduled projects and $2.0 million of additional projects. If we revise the schedule to skip 2020 and 2022, the CIP is a realistic construction plan and keeps the District's reserves in good shape. As always, we review the CIP annually and so far have made adjustments to the plan nearly every year. As stated above, the new management coming in will have adequate time to review this program and revise if needed, or take a totally different approach.

We have cleared up where the Guernewood Park Resort (GPR) fits in this plan - it doesn't. 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.

That leaves open the question of whether the District will add facilities to bring water supply to fringe areas of the District; namely upper Summit area, the upper Schoeneman pressure zone area and the upper Natoma Tank pressure zone area. The District gets inquiries on an infrequent but regular basis about water supply to parcels in these areas that currently we cannot serve.

If the Board agrees with the approach recommended here, we will come back at the January meeting with a resolution to approve the CIP with the revised schedule.

**Table 1. Sweetwater Springs Water District 2018-2024 CIP Projects by Year**

| Year | Projects | Estimated Cost | Cost/Service | Comments |
|---|---|---|---|---|
| 2018 | | | | |
| | Phase 2 and 3, Old River Road/River Road (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 Blvd. | $1,488,000 | $25,655 | |
| | 2018 Total | $1,488,000 | | |
| 2019 | | | | |
| | Monte Rio Treatment Plant Green Sand Filter Replacement. Serves Monte Rio system (1100 services) | $250,000 | $227 | |
| | 2019 Total | $250,000 | | |
| 2020 | | | | |
| | Park Ave. (GV) replace approximately 2900 lf of main line on Park Ave. and McLane, 37 services. Loop two deadend lines. Replace/repair Park Ave. Tank | $788,000 | $21,297 | |
| | Cherry St. (GV) replace approximately 440 lf of main line, 13 services. | $126,000 | $9,692 | |
| | | | | |
| | 2020 Total | $914,000 | | |
| 2021 | | | | |
| | Wright Drive main pressure zone. – (GV) Replace approximately 1,120 ft of existing mainline and 18 associated services along Wright Dr. and Wright Ln. | $275,000 | $15,278 | |
| | 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. | $400,000 | $14,815 | |
| | 2021 Total | $675,000 | | |
| 2022 | | | | |
| | **Skip Capital Project** | | | |
| 2023 | | | | |

| | | | | |
|---|---|---|---|---|
| | 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 | $814,300 | $17,326 | |
| | Schoeneman Tank– Replace the existing 10,000 gallon tank with a 30,000 gallon storage tank. 2005 cost estimate | $127,000 | $2,702 | |
| | 2023 Total | $941,300 | | |
| 2024 | | | | |
| | **Skip Capital Project** | | | |
| | | | | |
| | **Total Cost of 2018-2024 Projects** | **$4,268,300** | | |
| | | | | |
| 2025 | | | | |
| | 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) | $870,000 | | |
| | Natoma Tank – Replace the existing 10,000 gallon storage tank with a 30,000 storage tank. 2005 cost estimate | $190,000 | | |
| | 2025 Total | | | |
| | | | | |
| | **Other Projects** | | | |
| | 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** | **$2,010,000** | | |

**Table 3. OPERATING AND CAPITAL BUDGET SUMMARY Skip CIP in FY22** 3% Sales Flat

| | | FY18 Actual | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 |
|---|---|---|---|---|---|---|---|---|
| 1 | **REVENUE** | | | | | | | |
| 2 | **OPERATING REVENUE** | Flat…. | | | | | | |
| 3 | **Water Bill Revenue** | | | | | | | |
| 4 | **Capital Debt Reduction Charge** | 279,369 | 287,751 | 296,383 | 305,275 | 314,433 | 323,866 | 404,300 |
| 5 | **Total Water Sales** | 2,427,235 | 2,212,301 | 2,278,670 | 2,347,030 | 2,417,441 | 2,489,965 | 2,564,664 |
| 6 | **Total OPERATING REVENUE** | **2,427,235** | **2,500,052** | **2,575,053** | **2,652,305** | **2,731,874** | **2,813,830** | **2,968,964** |
| 7 | **Total NON-OPERATING REVENUE** | **164,124** | **166,054** | **168,022** | **170,029** | **172,076** | **174,165** | **176,295** |
| 8 | **Total Income** | 2,591,359 | 2,666,105 | 2,743,075 | 2,822,334 | 2,903,951 | 2,987,995 | 3,145,259 |
| 9 | **EXPENSES** | | | **New GM** | | | | |
| 10 | **Total Salary** | **877,373** | **894,920** | **942,819** | **961,675** | **980,909** | **1,000,527** | **1,020,537** |
| 11 | **Total Benefits** | **320,503** | **370,118** | **381,222** | **392,658** | **404,438** | **416,571** | **429,068** |
| 12 | **SALARY & BENEFITS** | **1,197,876** | **1,265,039** | **1,324,041** | **1,354,334** | **1,385,347** | **1,417,098** | **1,449,606** |
| 13 | **Unfunded Liability Increase** | **112,000** | **100,000** | **100,000** | **100,000** | **100,000** | **100,000** | **100,000** |
| 14 | **SERVICES & SUPPLIES** **increase =** | 2% | | | | | | |
| 15 | **SERVICES & SUPPLIES** | **472,335** | **497,059** | **502,029** | **507,049** | **512,120** | **517,241** | **522,413** |
| 16 | **TOTAL OPERATING EXPENSES** | 1,782,211 | 1,862,097 | 1,926,070 | 1,961,383 | 1,997,467 | 2,034,339 | 2,072,019 |
| 17 | OPERATING SURPLUS/DEFICIT | **$809,148** | **$804,008** | **$817,005** | **$860,951** | **$906,484** | **$953,656** | **$1,073,239** |
| 18 | **FIXED ASSET EXPENDITURES** | **61,223** | **60,000** | **20,000** | **60,000** | **20,000** | **60,000** | **20,000** |
| 17 | **TRANSFERS TO OTHER FUNDS** | | | | | | | |
| 19 | **Tfers to CIRF for CDR Revenue** | 278,615 | 287,751 | 296,383 | 305,275 | 314,433 | 323,866 | 404,300 |
| 20 | **Tfers to CIRF** | 320,000 | 340,000 | 380,000 | 380,000 | 460,000 | 450,000 | 530,000 |
| 21 | **Total TRANSFERS TO OTHER FUNDS** | 638,615 | 667,751 | 716,383 | 725,275 | 814,433 | 813,866 | 974,300 |
| 22 | SURPLUS/DEFICIT | **109,310** | **76,258** | **80,622** | **75,676** | **72,051** | **79,790** | **78,939** |
| 23 | **Capital Budget** | | | | | | | |
| 24 | **REVENUE/SOURCES OF FUNDS** | | | | | | | |
| 25 | **Net Operating Revenues**** | 429,310 | 416,258 | 460,622 | 455,676 | 532,051 | 529,790 | 608,939 |
| 26 | **Assessments** | 764,552 | 764,552 | 764,552 | 764,552 | 764,552 | 764,552 | 764,552 |
| 27 | **Capital Debt Reduction Charge***** | 278,615 | 287,751 | 296,383 | 305,275 | 314,433 | 323,866 | 404,300 |
| 28 | **Capital Interest** | 17,075 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| 29 | **Transfers From CIRF/Reserves** | 320,000 | | 590,000 | | 110,000 | 370,000 | |
| 30 | **USDA Loan** | 1,535,000 | get loan funds FY19 | | | | | |
| 31 | TOTAL REVENUE | 3,344,552 | 1,478,561 | 2,121,558 | 1,535,503 | 1,731,036 | 1,998,208 | 1,787,792 |
| 32 | **EXPENSES** | | | | | State Loan Done | | |
| 33 | **Total Debt Payments** | **1,010,758** | **1,072,758** | **1,072,758** | **1,072,758** | **926,019** | **926,019** | **926,019** |
| 34 | | CIP 2018 | **rpl GSF** | **2020 CIP** | **2021 CIP** | **No Project** | **2023 CIP** | **No Project** |
| 35 | **Annual CIP** | **1,535,000** | **250,000** | **914,000** | **675,000** | | **941,300** | |
| 36 | **In-House Construction Projects, etc.** | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| 37 | TOTAL EXPENSES | 2,585,758 | 1,362,758 | 2,026,758 | 1,787,758 | 966,019 | 1,907,319 | 966,019 |
| 38 | SURPLUS/DEFICIT | **758,793** | **115,802** | **94,799** | **-252,255** | **765,017** | **90,889** | **821,772** |
| 39 | **FUND AND LOAN BALANCES (EOY)** | | | | | | | |
| 40 | **Ending Funds ab District Policy (DP)** | 1,078,532 | **1,194,334** | **699,134** | **446,879** | **1,101,895** | **822,784** | **1,644,557** |
| 41 | **Funds ab DP and Debt Payments** | **67,774** | **121,576** | **(373,625)** | **(625,880)** | **175,876** | **(103,235)** | **718,537** |
| 42 | **NET CAPITAL FUNDING****** | **478,793** | **405,802** | **458,799** | **462,745** | **695,017** | **702,189** | **861,772** |

*** 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**

| | Table 4. OPERATING AND CAPITAL BUDGET SUMMARY Skip CIP in FY20 | 3% | Sales Flat | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | FY18 Actual | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 |
| 1 | REVENUE | | | | | | | |
| 2 | OPERATING REVENUE | Flat…. | | | | | | |
| 3 | Water Bill Revenue | | | | | | | |
| 4 | Capital Debt Reduction Charg | 279,369 | 287,751 | 296,383 | 305,275 | 314,433 | 323,866 | 404,300 |
| 5 | Total Water Sales | 2,427,235 | 2,212,301 | 2,278,670 | 2,347,030 | 2,417,441 | 2,489,965 | 2,564,664 |
| 6 | Total OPERATING REVENUE | 2,427,235 | 2,500,052 | 2,575,053 | 2,652,305 | 2,731,874 | 2,813,830 | 2,968,964 |
| 7 | Total NON-OPERATING REVENUE | 164,124 | 166,054 | 168,022 | 170,029 | 172,076 | 174,165 | 176,295 |
| 8 | Total Income | 2,591,359 | 2,666,105 | 2,743,075 | 2,822,334 | 2,903,951 | 2,987,995 | 3,145,259 |
| 9 | EXPENSES | | | New GM | | | | |
| 10 | Total Salary | 877,373 | 894,920 | 942,819 | 961,675 | 980,909 | 1,000,527 | 1,020,537 |
| 11 | Total Benefits | 320,503 | 370,118 | 381,222 | 392,658 | 404,438 | 416,571 | 429,068 |
| 12 | SALARY & BENEFITS | 1,197,876 | 1,265,039 | 1,324,041 | 1,354,334 | 1,385,347 | 1,417,098 | 1,449,606 |
| 13 | Unfunded Liability Increase | 112,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| 14 | SERVICES & SUPPLIES increase = | 2% | | | | | | |
| 15 | SERVICES & SUPPLIES | 472,335 | 497,059 | 502,029 | 507,049 | 512,120 | 517,241 | 522,413 |
| 16 | TOTAL OPERATING EXPENSES | 1,782,211 | 1,862,097 | 1,926,070 | 1,961,383 | 1,997,467 | 2,034,339 | 2,072,019 |
| 17 | OPERATING SURPLUS/DEFICIT | $809,148 | $804,008 | $817,005 | $860,951 | $906,484 | $953,656 | $1,073,239 |
| 18 | FIXED ASSET EXPENDITURES | 61,223 | 60,000 | 20,000 | 60,000 | 20,000 | 60,000 | 20,000 |
| 17 | TRANSFERS TO OTHER FUNDS | | | | | | | |
| 19 | Tfers to CIRF for CDR Revenue | 278,615 | 287,751 | 296,383 | 305,275 | 314,433 | 323,866 | 404,300 |
| 20 | Tfers to CIRF | 320,000 | 340,000 | 380,000 | 380,000 | 460,000 | 450,000 | 530,000 |
| 21 | Total TRANSFERS TO OTHER FUNDS | 638,615 | 667,751 | 716,383 | 725,275 | 814,433 | 813,866 | 974,300 |
| 22 | SURPLUS/DEFICIT | 109,310 | 76,258 | 80,622 | 75,676 | 72,051 | 79,790 | 78,939 |
| 23 | **Capital Budget** | | | | | | | |
| 24 | REVENUE/SOURCES OF FUNDS | | | | | | | |
| 25 | Net Operating Revenues** | 429,310 | 416,258 | 460,622 | 455,676 | 532,051 | 529,790 | 608,939 |
| 26 | Assessments | 764,552 | 764,552 | 764,552 | 764,552 | 764,552 | 764,552 | 764,552 |
| 27 | Capital Debt Reduction Charge*** | 278,615 | 287,751 | 296,383 | 305,275 | 314,433 | 323,866 | 404,300 |
| 28 | Capital Interest | 17,075 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| 29 | Transfers From CIRF/Reserves | 320,000 | | 590,000 | | 110,000 | 370,000 | |
| 30 | USDA Loan | 1,535,000 | get loan funds FY19 | | | | | |
| 31 | TOTAL REVENUE | 3,344,552 | 1,478,561 | 2,121,558 | 1,535,503 | 1,731,036 | 1,998,208 | 1,787,792 |
| 32 | EXPENSES | | | | | State Loan Done | | |
| 33 | Total Debt Payments | 1,010,758 | 1,072,758 | 1,072,758 | 1,072,758 | 926,019 | 926,019 | 926,019 |
| 34 | | CIP 2018 | rpl GSF | No Project | 2021 CIP | No Project | 2023 CIP | 2024 CIP |
| 35 | Annual CIP | 1,535,000 | 250,000 | | 914,000 | | 675,000 | 941,300 |
| 36 | In-House Construction Projects, etc. | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| 37 | TOTAL EXPENSES | 2,585,758 | 1,362,758 | 1,112,758 | 2,026,758 | 966,019 | 1,641,019 | 1,907,319 |
| 38 | SURPLUS/DEFICIT | 758,793 | 115,802 | 1,008,799 | -491,255 | 765,017 | 357,189 | -119,528 |
| 39 | FUND AND LOAN BALANCES (EOY) | | | | | | | |
| 40 | Ending Funds ab District Policy (DP) | 1,078,532 | 1,194,334 | 1,613,134 | 1,121,879 | 1,776,895 | 1,764,084 | 1,644,557 |
| 41 | Funds ab DP and Debt Payments | 67,774 | 121,576 | 540,375 | 49,120 | 850,876 | 838,065 | 718,537 |
| 42 | NET CAPITAL FUNDING**** | 478,793 | 405,802 | 458,799 | 462,745 | 695,017 | 702,189 | 861,772 |

* 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