SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: February 6, 2014

SUBJECT: FY 2014-2015 WATER RATE INCREASE DISCUSSION

RECOMMENDED ACTION: Receive a report on financial modeling results looking at effects of different rate increase scenarios on District budgets.

FISCAL IMPACT: None

DISCUSSION:

The Budget process was discussed at the January meeting and according to our schedule, the draft Budget will be presented at the March 6 Board meeting (Table 1). Staff is currently developing the Budget and the ad hoc Budget Committee has met once on January 22.

At the ad hoc Budget Committee meeting we discussed general issues affecting the FY 2014-2015 Budget. The major issue is whether we should have a rate increase for this coming year and we discussed this in detail. FY 15 would be the 4th year of a 9-year plan to increase the District's water rates by 3% annually with the goal of developing sustainable capital funding. In this past year the District refinanced its General Obligation Bonds saving approximately $45,000 per year for the next 19 years. The impact on District finances is comparable to a 2% rate increase and the Board may want to consider skipping a year of the rate increase plan.

The first item we discussed at the Budget Committee meeting was historical budgeting versus actual spending. Figure 1 shows this comparison from FY 09 to the present for major revenue and expense categories. What this shows is no real trends other than our budgeting and actual spending mirror each other. FY11 shows a substantial increase of actual salaries and benefits over budgeted – that was a one time expense to pay off the CalPERS side fund that came up late in the fiscal year. Otherwise all years are very close – our spending matches our budgets.

Figure 2 shows the effects of rate increases based on the financial planning model. This model includes the approved Capital Improvement Program and assumes $900,000 capital programs in the out years where included. It shows that a 3% increase meets the goal of meeting the District's Reserve Policy. Skipping a year does not, but the shortfall in FY20 is small and made up in one year.

At the January Board meeting we were asked what type of rate increases would be required to have funding for a CIP in all years of the planning period. The financial model shows that that can be accomplished by increasing rates by 5.5% this coming year and following up with 4% increases in following years. This approach would

allow the addition of $900,000 CIP's in FY18 and FY21 which are skipped in the base model.

We have discussed raising the rates to bring funding for capital projects to a sustainable level and have used a target of $500,000 as that level. In the past year we have changed our metric to Net Capital Funding from Net Operating Revenues to account for savings accrued from refinancing District debt. Figure 3 shows a comparison of Net Capital Funding and Net Operating Revenues and shows that for 3% rate increase scenarios, these metrics are roughly similar. The chart goes on to show the results Net Capital Funding for skipping the FY15 rate increase and for the 5.5% and 4% increases to avoid skipping years of capital projects.

I also used the model show what happens with keeping Net Capital Funding near $500,000 – the original target – and how to do that. In this scenario, the 3% rate increase approach is followed but rate increases do not happen when Net Capital Funding is projected above $500,000 without the rate increase. This allows no rate increase in FY19, FY21, and FY22 (the end of the planning period) and is shown on Figure 3. Also in FY22 the State Loans end which adds to Net Capital Funding. Going back to Figure 2, following that scenario allows a capital funding program identical to that of the 3% increase.

These analyses show the effects of rate increases in a limited number of scenarios – many more are possible. Skipping a rate increase this coming year would not ruin the District's CIP program – the model shows dipping into Policy Reserves but coming out quickly. The analyses show that building sustainable funding now allows skipping rate increases in the future.

Table 1. FY 2014-2015 Budget Preparation	
Review Capital Improvement Program	December 5, 2013
Budget Committee meetings	February/March 2014
Draft Budget to Board for Discussion/Action, Including Direction on Water Rates	March 6, 2014
Prop 218 Mailing for Water Rate Increase, if necessary	March 17, 2014
Draft Budget to Board for Discussion/Action	April 2, 2014
Approve Budget • Prop 218 Public Hearing on Rates, if necessary	May 1, 2014

Figure 1. Actual Revenues and Expenses (2014 Actuals are projected)

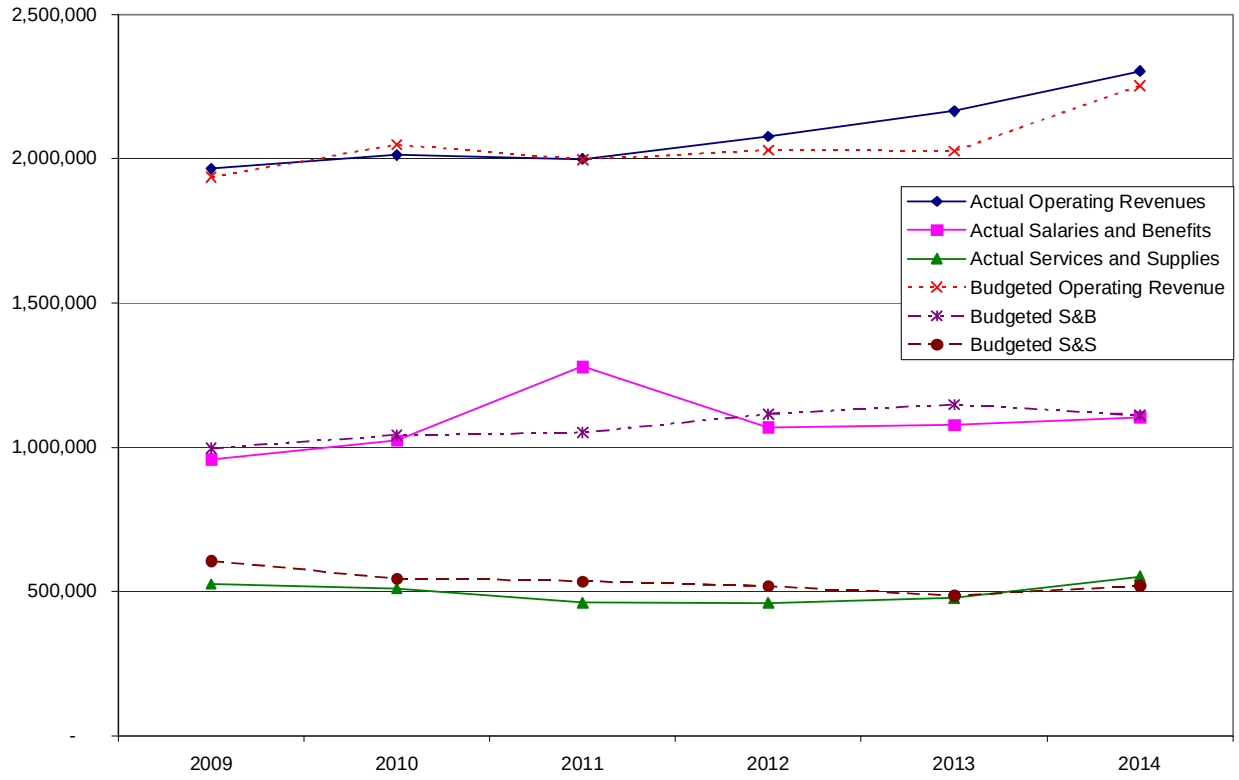

Figure 2. Estimated Reserves Above Policy with Refinancing Completed, Assumes Annual 3% Rate Increase

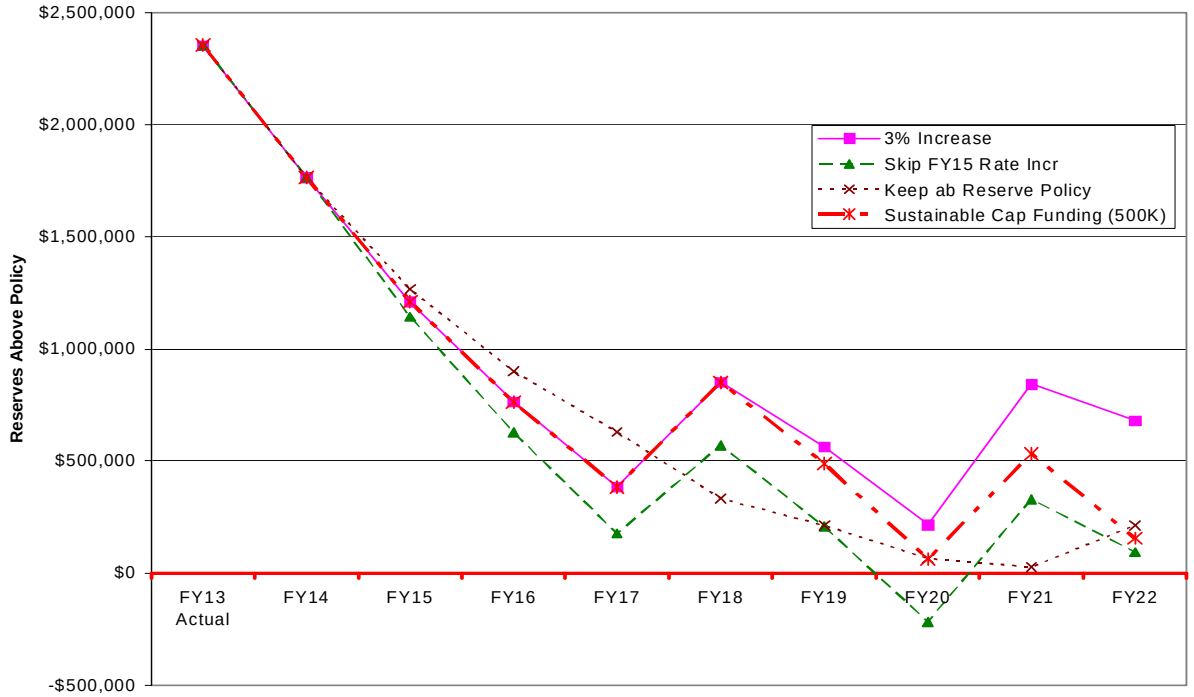
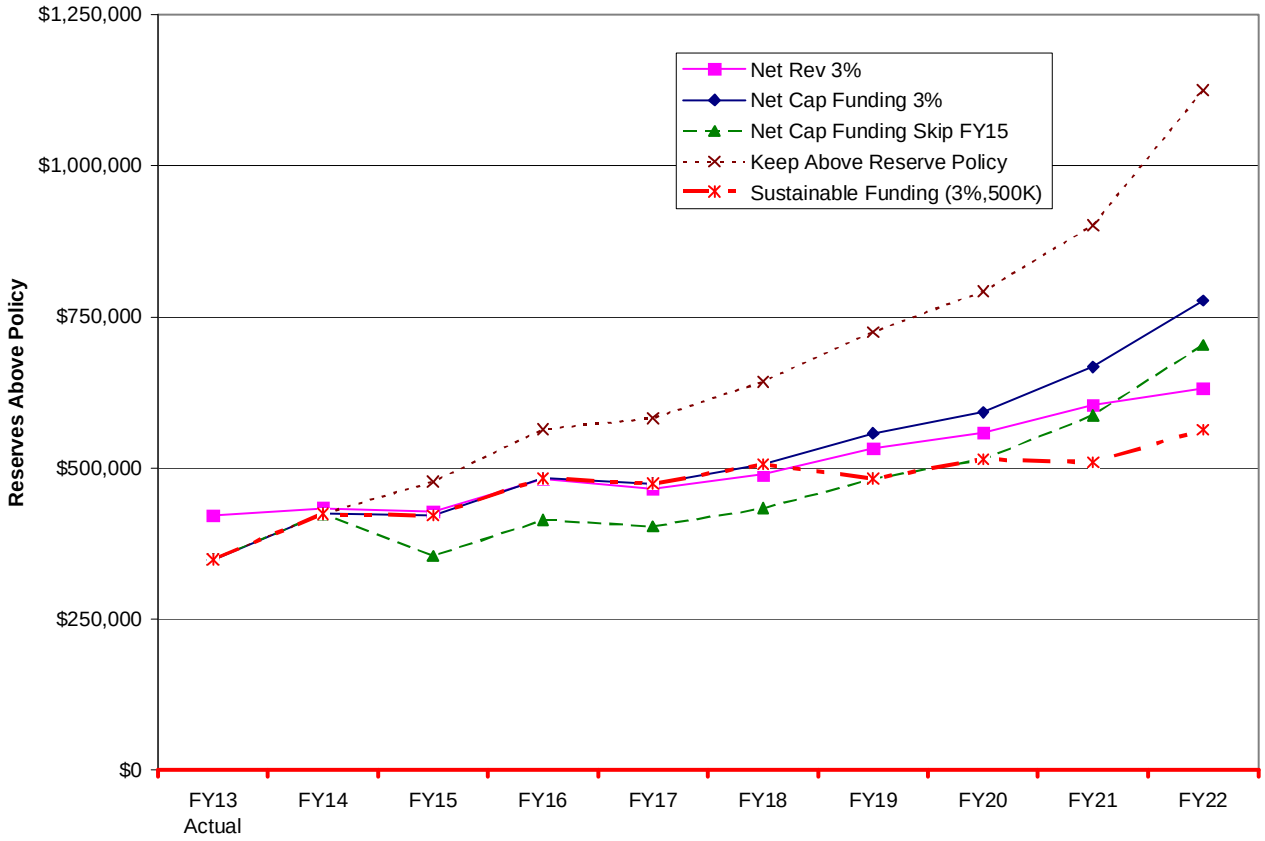
Figure 3. Comparison of Net Operating Revenue and Net Capital Funding with 3% Rate Increases and Other Scenarios