SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: March 6, 2014

SUBJECT: DRAFT FY 2014-2015 BUDGET

RECOMMENDED ACTION: Receive a report on the Draft District FY 2014-2015 Budget, including the District's proposed water rates based on a 3% increase, a change in the estimate of District reserves, a correction in the presentation of District Reserve Policy and Total Reserves, review of the Draft Budget, and provide direction to staff and the *ad hoc* Budget Committee.

FISCAL IMPACT: Provides financial direction for FY 2014-2015.

DISCUSSION:

The Budget Committee has had three meetings to discuss the draft 2014-2015 Budget which is being presented at this meeting (the line item draft Budget is attached as Exhibit B). Among the issues we have discussed (and shared in part with the Board at the February meeting):

District Reserve Calculations. District reserves are the funds the District has set aside for unexpected expenses and for future planned expenses, principally the District's Capital Improvement Program (CIP). In doing this budget and the audit we have realized we have not been presenting the District Policy Reserves according to District Policy (Ordinance 41 and Policies and Procedures (P&P) 3510), and in the total reserves we should be including funds from District accounts that we have not been including.

- **District Policy Reserves shown incorrectly in prior budget documents.** P&P 3510 requires that the District have designated District reserves that include an Operating Budget Cash Reserve which is 15% of the annual Operating Budget expenses, an Operating Reserve which is 25% of the Operating Budget expenses, a Capital Reserve which is $250,000, and a Debt Payment Reserve which is 25% of all debt payments. In past budget documents we have shown Policy Reserves that include an Operating Balance of $200,000, Budget Reserve – 10% of Operating Budget Expenses, Economic Reserve – 15% of Operating Budget Expenses, and Debt Payment and Capital Reserves as described above. This results in about a $40,000 difference with this year's budget. The budget attached has the Policy Reserves correctly described and calculated.

- **District Funds at the County that should be included in the Total Reserves.** Exhibit A shows the total funds at Sonoma County and this document is included in the quarterly reporting on the District's budget versus actual expenses. In the beginning discussions on District reserves available for capital expenses we decided not to include five funds - Federal Loans, 776203, State Loan 58330, 776500, State Loan 58340, 776609 (all three in yellow), State Loan 58330 Reserve, 776518, and State Loan 58340 Reserve, 776617 (both in light blue) in the total reserves because they were required and designated for the respective debt repayments. In reviewing this item while preparing the budget and responding to the audit, we realized that the first three funds (or accounts at the County) are actually holding accounts for budget items to be expended on an annual basis (the GO bonds and State Loans each have two payments per year each) and that these expenses are included in the annual budget. Therefore these funds should be included in the Total Reserves. The two State Loan Reserve accounts are required to hold their respective amounts as the guaranteed last payment or for payment if the District defaults; those funds are not available for District spending except at the end of the loans and we don't believe they should be included in the Total Reserves.

  The effect on Total Reserves is an increase of approximately $860,000 and this substantially changes how we can look at future funding of the District's CIP – we can avoid skipping fiscal year 2018 and move capital projects up. Figure 1 shows how this changes the longer-term Reserves Above Policy chart which was discussed at the February meeting. More information on this will be presented at the March 6 meeting.

Proposed FY 2014-2015 Water Rates

At the February meeting the Board gave direction to proceed with a 3% increase for District water rates. This fits in with the 9-year plan for modest annual rate increases to develop sustainable capital funding. Table 2 shows the proposed water rates and Table 3 shows a comparison of water bills with current and proposed rates for typical customers. The District is on schedule to mail out Proposition 218 notices by March 17 to District property owners.

Fiscal Year 2014-2015 (FY15) Budget

The draft FY15 Budget detail is attached as Exhibit B. Figures 2 and 3 show the relative total expenses and revenues projected for the Operating and Capital Budget. The draft Budget has been discussed by the Ad Hoc Budget Committee in three meetings in January and February. Staff have met many times to develop the appropriate line item amounts for the Operating section of the Budget.

The format used this year is similar to the format used in last year's budget with some changes:

- The Policy Reserves format was revised as discussed above
- Two rows were added to the Fund Balances Section to reflect amounts in the Federal Loan and State Loans columns in the District Funds as discussed above.
- Rows were added in the Capital Budget and the Reserves sections to reflect end of year accrual-based totals. This is to allow review of end of year Budget amounts without including the obligated (contract award in May or June 2014) but not spent funds for the 2016 CIP. The estimated amount of the 2016 CIP to be obligated in FY15 but spent in FY16 is $975,000.

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 end of year FY15 water usage revenues are estimated to increase by 3% over the amount projected at the end of FY14. The ongoing drought situation may decrease water sales, thus affecting Water Usage charge revenue.
- The revenue from the Base Rate Charge and the CDRC have been based on a 3% increase in the projected end of year amounts for those two sources of revenue. These revenues are fixed charges and do not vary with water sales.
- Salaries are increased to match the Union Memorandum of Understanding and contracts for nonrepresented employees which is 2% for the coming fiscal year. Salary and benefits expenses have not been adjusted to reflect the reduction in costs for the Administration Manager position and the likely retirement and replacement of a Maintenance Worker I.

Highlights of the Draft FY15 Operating Budget include:

- Supplies and Services were scrutinized to reflect actual expected costs and have decreased $20,000 over FY14 Budgeted but approximately $1,500 less than end of year projected for FY14.
- Expenditures for Tanks and Facilities include a liner for the Park Avenue Tank and the foundation for the Park Avenue Tank and replacement of the Monte Rio Miox chlorination system; the total cost for this line item has increased $1,000 over FY14 to $22,000.
- We have included a truck purchase estimated at $50,000.

- The transfer to the Capital Improvement Reserve Fund (CIRF) is $500,000 which is the sustainable funding target and a reflection of the expected starting point for this coming fiscal year based on higher water sales this year and expected flat sales for FY15. There is uncertainty in this amount – will water sales stay flat? Can we keep supplies and services costs flat?

With the Capital section of the Budget, comparisons between annual budget expenses are less meaningful because completely different capital projects are undertaken from year to year. The major expense of the FY15 Budget is the FY 2015 CIP. The 2015 CIP is on schedule for award of the construction contract at the May meeting and most costs associated with that project will be expended in FY 2015. We recently received an updated engineer's estimate of probable cost of $1,060,000 for this project and we have put that amount in the Draft Budget. Prior to this change we were working with an estimate of $800,000 which was based on a cost estimate done years ago.

The 2016 CIP is also included in this budget because funds for this project will likely be obligated in May or June 2015, during the FY15 budget year. The expense of construction of the 2016 CIP is not included in Figure 2 because only a small fraction of the 2016 CIP expenses will be expended in FY15 (design costs). The Capital Budget and reserve amounts show budgeted and accrual-based totals so that one can see these amounts with and without the cost of the 2016 CIP.

The Capital Budget includes a new row in expenses entitled Cap One Revenue Bond and shows the effects of the recent refinancing of the General Obligation Bonds. This has resulted in a savings of approximately $48,000 for FY15.

District Reserves

The FY15 Budget includes the corrected titles and amounts per the District Reserve Policy approved in September 2009.

- Operating Budget Cash Reserve – a reserve based on 15% of the Operating Budget expenses to allow for prompt payment of District bills at the start of a fiscal year.
- Operating Reserve – 25% of the Operating Budget expenses for economic downturn or other economic crisis, and emergencies and disaster-related expenses.
- Debt Repayment Reserve - 25% of the annual debt payments 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 draft Budget shows a Policy Reserve of $1,151,808 and $1,737,530 in Reserves Above Policy at the end of the fiscal year. As noted above the Reserves Above Policy include the Federal Loan and State Loans funds as noted in the District Funds section in Exhibit B.

Proposition 218 Notice

Proposition 218 requires that 45 day notice be given to all property owners in the area affected by a proposed rate increase. Notice for proposed water rate increases will need to be mailed to all property owners by March 17, 2013. The Notice will provide for an increase to the Base Rate and Water Usage Charges and Capital Debt Reduction Charge of up to 3% for FY 2015 and will include the proposed rate schedules and a protest form.

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 3, 2014
Approve Budget • Prop 218 Public Hearing on Rates, if necessary	May 1, 2014

Table 2. Proposed Sweetwater Springs Water District Bimonthly Water Rates for FY 2014-15, 3% Increase for Water Usage and Base Rates, and CDRC							
Meter Size (in)	**Base Rate**	**Water Usage Rate**				**Capital Debt Reduction Charge**	**Base Rate + CDRC**
		Tier 1	Tier 2	Tier 3	Tier 4		
		1.30	2.60	3.85	5.60		
		Max Usage (Hcf)	Max Usage (Hcf)	Max Usage (Hcf)	Max Usage (Hcf)		
0.625	$56.25	8	20	80	>80	$10.30	$66.55
1	$140.63	20	50	200	>200	$25.75	$166.38
1.5	$281.25	40	100	400	>400	$51.45	$332.70
2	$450.00	64	160	640	>640	$82.35	$532.35

Table 2. 3% Water Rate Increase Effect on Typical Water Users by Class (100 cubic feet (Units), FY14-15						
	Single Family Residential		**Multi-Family Residential, 2 Units**		**Commercial 5/8 Meter**	
Number of Accounts	**3092**		**252**		**132**	
	Median	90%	Median	90%	Median	90%
Median Water Use	7	22	12	32	15	82
Median Bill Current	$73.40	$ 112.15	$115.21	$165.96	$92.15	$340.55
Median Bill Proposed	$75.65	$ 115.85	$118.75	$171.48	$95.15	$350.35
Bimonthly Difference	$ 2.25	$ 3.70	$ 3.55	$ 5.52	$ 3.00	$ 9.80
% Increase	3.1%	3.3%	3.1%	3.3%	3.3%	2.9%

Figure 1. Estimated Reserves Above Policy with Refinancing Completed, Assumes Annual 3% Rate Increase; No Skip Alt has 3.5% Increase

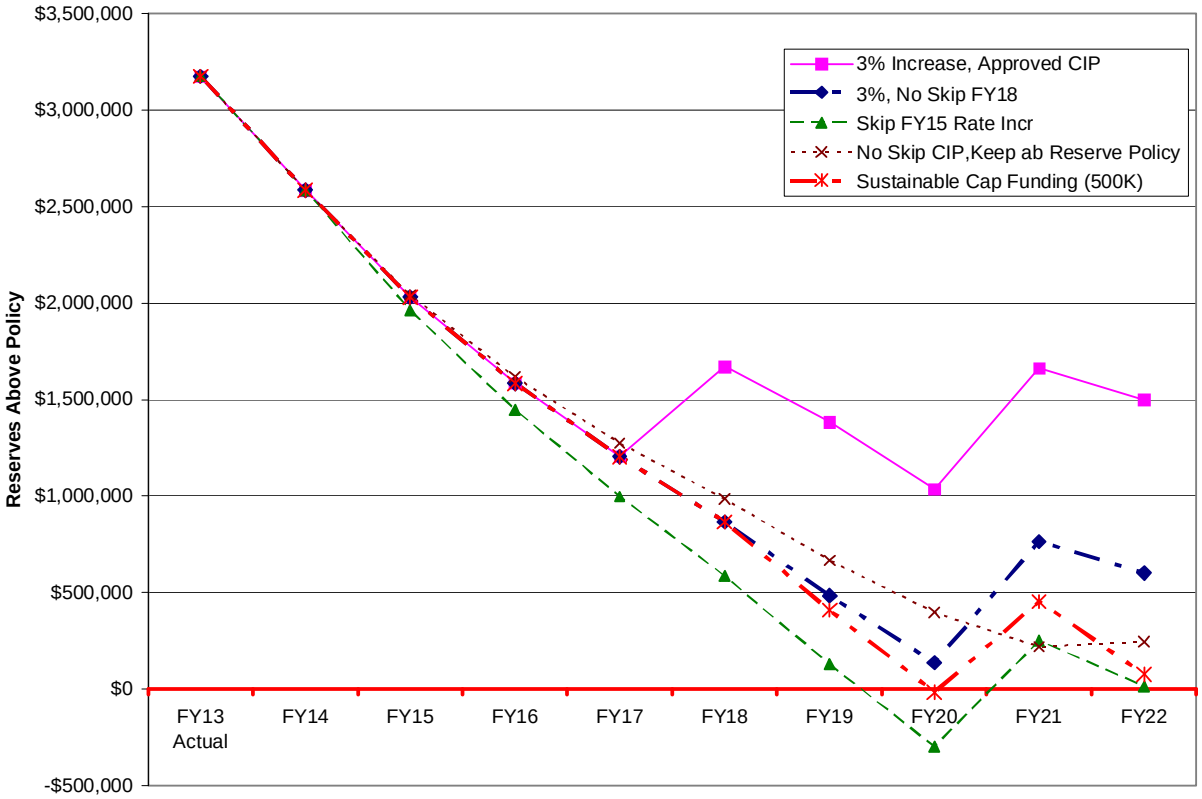


Figure 2. FY 2015 Expenses

Total = $3.6 Million
(does not include FY16 CIP construction)

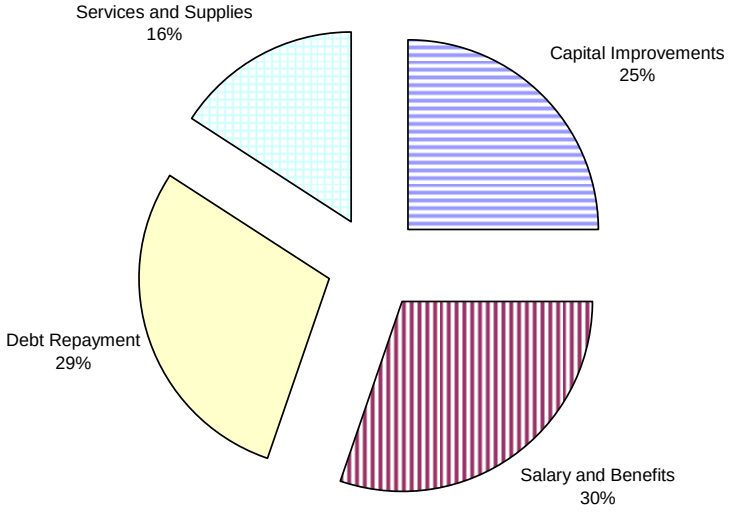
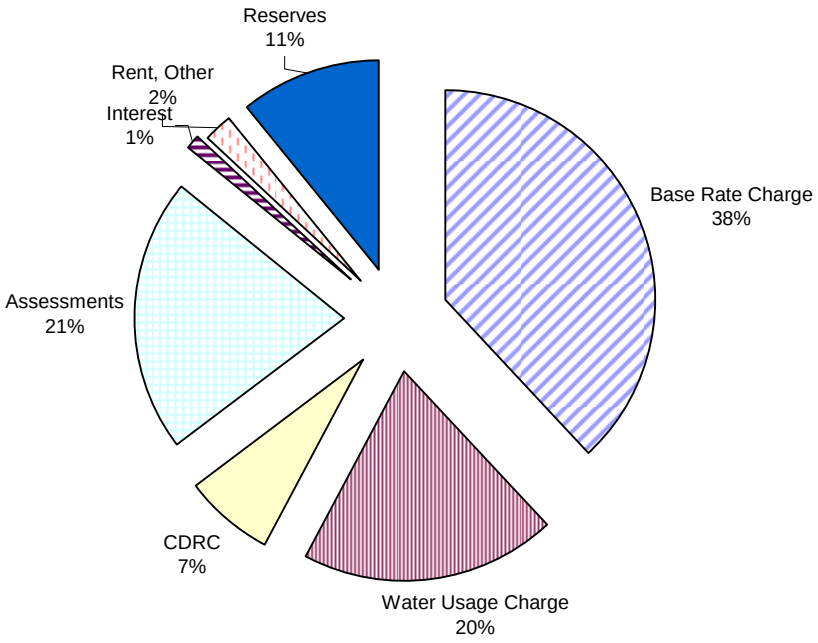


Figure 3. FY15 Sources of Funds to Pay for Expenses

Total = $3.6 Million

$3.0 Million Revenues + $600,000 Reserves