

**Exhibit A**



***Sweetwater Springs  
Water District***

**Annual Operating & Capital  
Improvement Budget**

**2016-17 Fiscal Year**

**(For the period July 1, 2016 - June 30, 2017)**

**Board of Directors**

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

FY 2016-17 Budget Report

Sweetwater Springs Water District

*General Manager  
Steve Mack*

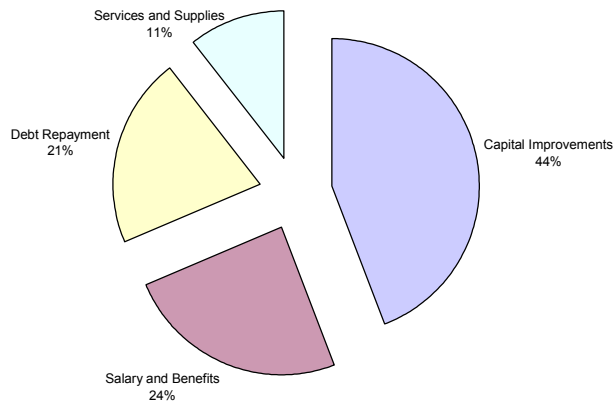
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**Sweetwater Springs Water District  
Annual Operating & Capital Improvement Budget  
2016-17 Fiscal Year  
Summary**

In Fiscal Year 2016-2017 (FY17) Sweetwater Springs Water District has budgeted operating expenses of \$1.7 million and capital improvement expenses of \$3.2 million. Figures 1 and 2 respectively show the distribution of these expenses and sources of funds to pay for these expenses. Note that sources of funds include approximately \$2,200,000 from a US Department of Agriculture (USDA) loan and grant for capital improvements.

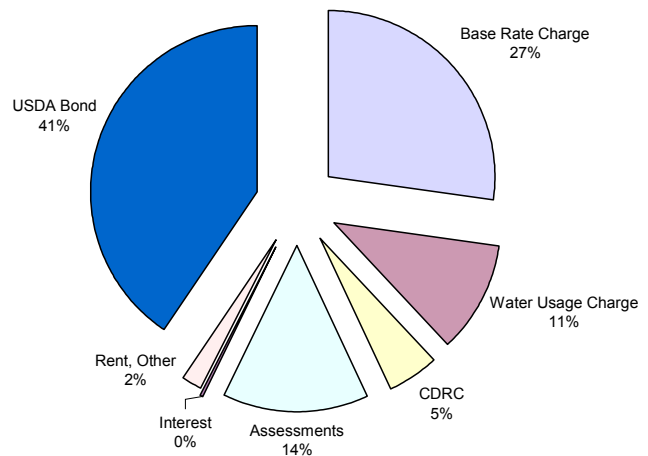
**Figure 1. FY 2017 Expenses**

Total = \$5.0 Million  
(Includes FY17 CIP construction)



**Figure 2. FY17 Sources of Funds to Pay for Expenses**

Total = \$5.5 Million  
\$3.3 Million Revenues + \$2.2 Million USDA Bond



FY 2016-17 Budget Report

Sweetwater Springs Water District

Table 1 is a summary of the FY17 Budget which is described in detail in the following pages. The FY17 Budget is similar in form and content to prior years' budgets. The FY17 Budget includes the sixth year of 3% increases for the Base Rate and Water Usage Charges and the fourth year of a 3% increase to the Capital Debt Reduction Charge which are designed to develop sustainable capital project funding. The District anticipates construction of a major water main replacement project on Old River Road and River Road which will be funded by a USDA loan/grant.

| FY 2016-17 OPERATING AND CAPITAL BUDGET |  |  |  |  |  |                           |                   |                       |                    |                                    |
|---|--|--|--|--|--|---------------------------|-------------------|-----------------------|--------------------|------------------------------------|
| OPERATING BUDGET                        |  |  |  |  |  |                           |                   |                       |                    |                                    |
|   |  |  |  |  |  | FY 14-15<br>FINAL (CASH)* | FY15-16<br>BUDGET | FY 15-16<br>Projected | FY 16-17<br>BUDGET | Difference<br>FY17-FY16<br>Budgets |
| 1                                       | <b>REVENUE</b>                               |  |  |  |  |                           |                   |                       |                    |                                    |
| 2                                       | OPERATING REVENUE                            |  |  |  |  |                           |                   |                       |                    |                                    |
| 3                                       | 4031 - Water Bill Revenue                    |  |  |  |  |                           |                   |                       |                    |                                    |
| 4                                       | 4031.1 - Capital Debt Reduction Charge       |  |  |  |  |                           |                   |                       |                    |                                    |
| 5                                       | 4031.1 - Water Sales - Base Rate             |  |  |  |  |                           |                   |                       |                    |                                    |
| 6                                       | 4031.1 - Water Sales - Usage Charges + Other |  |  |  |  |                           |                   |                       |                    |                                    |
| 7                                       | 4031.1 - Total Water Sales                   |  |  |  |  |                           |                   |                       |                    |                                    |
| 8                                       | Total OPERATING REVENUE                      |  |  |  |  |                           |                   |                       |                    |                                    |
| 9                                       | Total NON-OPERATING REVENUE                  |  |  |  |  |                           |                   |                       |                    |                                    |
| 10                                      | Total Income                                 |  |  |  |  |                           |                   |                       |                    |                                    |
| 11                                      | <b>EXPENSES</b>                              |  |  |  |  |                           |                   |                       |                    |                                    |
| 12                                      | SALARY & BENEFITS                            |  |  |  |  |                           |                   |                       |                    |                                    |
| 13                                      | Total Salary                                 |  |  |  |  |                           |                   |                       |                    |                                    |
| 14                                      | Total Benefits                               |  |  |  |  |                           |                   |                       |                    |                                    |
| 15                                      | Total SALARY & BENEFITS                      |  |  |  |  |                           |                   |                       |                    |                                    |
| 16                                      | Total Utilities                              |  |  |  |  |                           |                   |                       |                    |                                    |
| 17                                      | Total SERVICES & SUPPLIES                    |  |  |  |  |                           |                   |                       |                    |                                    |
| 18                                      | Total OPERATING EXPENSES                     |  |  |  |  |                           |                   |                       |                    |                                    |
| 19                                      | <b>OPERATING SURPLUS/DEFICIT</b>             |  |  |  |  |                           |                   |                       |                    |                                    |
| 20                                      | Total FIXED ASSET EXPENDITURES               |  |  |  |  |                           |                   |                       |                    |                                    |
| 21                                      | Total TRANSFERS TO OTHER FUNDS               |  |  |  |  |                           |                   |                       |                    |                                    |
| 22                                      | <b>SURPLUS/DEFICIT</b>                       |  |  |  |  |                           |                   |                       |                    |                                    |
| 23                                      |  |  |  |  |  |                           |                   |                       |                    |                                    |
| 24                                      | <b>CAPITAL BUDGET</b>                        |  |  |  |  |                           |                   |                       |                    |                                    |
| 25                                      | <b>REVENUE/SOURCES OF FUNDS</b>              |  |  |  |  |                           |                   |                       |                    |                                    |
| 26                                      | TOTAL REVENUE                                |  |  |  |  |                           |                   |                       |                    |                                    |
| 27                                      | <b>EXPENSES</b>                              |  |  |  |  |                           |                   |                       |                    |                                    |
| 28                                      | TOTAL DEBT PAYMENTS                          |  |  |  |  |                           |                   |                       |                    |                                    |
| 29                                      | Total Capital Expenses                       |  |  |  |  |                           |                   |                       |                    |                                    |
| 30                                      | TOTAL EXPENSES                               |  |  |  |  |                           |                   |                       |                    |                                    |
| 31                                      | SURPLUS/DEFICIT                              |  |  |  |  |                           |                   |                       |                    |                                    |
| 32                                      | Net Capital Funding                          |  |  |  |  |                           |                   |                       |                    |                                    |
| 33                                      |  |  |  |  |  |                           |                   |                       |                    |                                    |
| 34                                      | TOTAL Reserves EOY                           |  |  |  |  |                           |                   |                       |                    |                                    |
| 35                                      | Reserves Above (below) Policy                |  |  |  |  |                           |                   |                       |                    |                                    |

Sweetwater Springs Water District  
**2016-17 Fiscal Year (FY17) 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 FY17 Budget follows the format established in prior years and includes the sixth consecutive year of a 3% increase to the Base Rate and Water Usage Charges, and the fourth 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 FY17 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 sixth 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](http://www.sweetwatersprings.com).

**Net Capital Funding will be approximately \$360,000.** 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 32 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 have a small increase because of continued depressed water sales from drought--related water use restrictions. We believe that Net Capital Funding should be near \$500,000 for a sustainable capital improvement program for the District.

The current drought has a big impact on the budget planning in this and future years and that shows up in our Net Capital Funding amount. Water sales will continue to be depressed because of the California State Water Resources Control Board direction for SSWD to keep water use at 84% of 2013 levels. Water use in FY 2016 is lower than that - approximately 80% of 2013. 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 the drought restrictions are eased, water sales

## FY 2016-17 Budget Report

### Sweetwater Springs Water District

revenue will increase and the District will move toward reaching the \$500,000 net capital funding goal.

**FY 2017 CIP (Table 2) and USDA Loan/Bond:** The FY17 Capital Budget includes FY17 CIP which is replacement of approximately 6,800 ft of existing main and 75 services on Old River Rd at Morningside east to the eastern section of Foothill Drive and include Orchard Rd and Foothill Drive and River Rd on river side of the road. The estimated cost of approximately \$2.2 million including construction costs, and inspection and construction management. The District is undertaking this large project because of the need to replace the existing aged cast iron pipe. Because of the size of this project the District is proposing to borrow the funding from USDA Rural Development. The loan/bond would have an interest rate of 2.5% and we expect 25% of the loan amount to be a grant. The loan would have a 40 year payback period and cost the District approximately \$60,000 per year starting in FY18.

**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. The FY17 Budget projects that the District will have approximately \$1.29 million in Reserves Above District Policy at the end of FY17.

### **Other Financial Assumptions/Highlights of the FY17 Budget include:**

- As noted above, we expect water sales to be similar to FY 2016 which is depressed below historical levels because of the drought water use restrictions imposed by the State Water Resources Control Board and the lingering effect of these restrictions once those requirements are lifted.
- Salaries are increased by 2% consistent with the Memorandum of Understanding (MOU) with District employees, and contracts for nonrepresented employees increase in a similar manner.

## FY 2016-17 Budget Report

### Sweetwater Springs Water District

- Employees pay the employee share of PERS retirement (7% of salary) which is also consistent with the MOU.
- The transfer to the Capital Improvement Revenue Fund (CIRF) is budgeted at \$330,000 in FY17.

### Line Item Highlights of the FY17 Budget:

#### **The FY17 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. 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 \$10,000 over the projected FY16 budget because of a increases in medical and workers comp insurance costs. Salaries and Benefits are a major District expense – approximately 70% of the FY17 Operating Budget expenses.

**Total Supplies and Services** are approximately \$8,000 lower than the FY16 approved budget. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and is budgeted at a similar amount for FY17. **Governmental Fees** and **Professional Services** are budgeted to have a small increase (\$2,000). **Electricity** is a big expense item and is budgeted to be \$10,000 less than FY16.

**Fixed Asset Expenditures** is at a similar level to FY16 because the purchase of a new truck is included. There are also substantial expenses for **Tank/Facilities Sites** to repair the road up to the Monte Rio tanks, and a tank liner at the Park Avenue Tank.

The Operating Budget has a surplus of approximately \$717,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Revenue Fund (CIRF) (\$330,000) Building Fund (\$15,000), In-House Construction Fund (\$25,000), and CDRC revenue (\$270,375).

#### **The FY15 Capital Budget major expense is the FY 2017 CIP (estimated cost \$2.2 Million) described above and in Table 2. A USDA loan/grant will fund the cost of this project.**

**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 21% of total District annual expenses in FY17. District Capital Debt includes:

FY 2016-17 Budget Report

Sweetwater Springs Water District

- 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 2013 and 2014. Paid off in 2054. Annual payment - \$64,284.
- Cap One Bond – The District refinanced the first 20 years of the GO Bonds in September 2013. Paid off in 2033, the FY17 payment is \$566,508. Remaining principal is \$6,941,000.
- State Loans - two loans for approximately \$3 million which were approved in 1995-96 for needed improvements. Paid off in 2021-22. Annual payment - \$170,168.50. Remaining principal is \$980,092.94.
- Private Placement Loan. \$3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. Annual payment - \$234,012. Remaining principal is \$2,186,930.86.

**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 FY17, District Policy Reserves are at \$1,207,907 and Reserves Above District Policy at the end of the fiscal year are \$1,287,199.

The detailed FY17 Budget is included as Attachment A.

| Year | Projects   | Estimated Cost |
|------|--|----------------|
| 2017 |  |                |
|      | Old River Road/River Road (GV) - replace approximately 6,800 ft of existing main and 75 services on Old River Rd at Morningside east to the eastern section of Foothill Drive and include Orchard Rd and Foothill Drive and River Rd on the River side of the road | \$2,200,000    |