



*Sweetwater Springs
Water District*

Annual Operating & Capital
Improvement Budget

DRAFT

2011-12 Fiscal Year

(For the period July 1, 2011 - June 30, 2012)

Board of Directors

Jim Quigley, President

Sukey Robb-Wilder, Vice President

Gaylord Schaap, Financial Coordinator

Wanda Smith

Victoria Wikle

General Manager

Steve Mack

DRAFT

Sweetwater Springs Water District
Annual Operating & Capital Improvement Budget
2011-12 Fiscal Year

Summary

Table 1 is a summary of the FY12 Budget which is described and shown in detail in the following pages. The FY11 Budget is similar in form to last year's budget. Major changes include 3% increases for the Base Rate and Water Usage Charges, a one-time \$240,000 payment for the CalPERS Side Fund (District retirement program, and inclusion of revenue from the Sonoma County Community Redevelopment Agency (CRDA)/Russian River Redevelopment Oversight Committee (RRROC) for the FY 2012 CIP capital projects.

Table 1. Sweetwater Springs Water District FY 12 Budget Summary								
April 7, 2011			FY 09-10 FINAL (CASH)	10-11 BUDGET	10-11 REVISED	FY 10-11 Projected	FY 11-12 BUDGET	Difference FY12-FY11
OPERATING BUDGET								
	Water Bill Revenue		2,012,339	1,997,000	1,997,000	1,982,000	2,030,250	33,250
	Other Revenue		127,912	119,200	129,808	114,981	121,700	(8,108)
	Total Income		2,140,251	2,116,200	2,126,808	2,096,981	2,151,950	25,142
EXPENSES								
	Total SALARY & BENEFITS		1,024,704	1,051,800	1,051,800	1,026,621	1,358,520	306,720
	Total SERVICES & SUPPLIES		511,277	536,080	536,080	486,183	486,090	(49,990)
	Total OPERATING EXPENSES		1,535,981	1,587,880	1,587,880	1,512,804	1,844,610	256,730
OPERATING SURPLUS/DEFICIT			\$604,270	\$528,320	\$538,928	\$584,177	\$307,340	(231,588)
	Total FIXED ASSET EXPENDITURES		10,507	1,050	1,050	4,873	3,500	2,450
	Total TRANSFERS TO OTHER FUNDS		572,426	507,000	507,000	507,000	296,000	(211,000)
	Total Expenses and Transfers		2,118,914	2,095,930	2,095,930	2,024,677	2,144,110	48,180
SURPLUS/DEFICIT			21,337	20,270	30,878	72,304	7,840	(23,038)
CAPITAL BUDGET								
REVENUE/SOURCES OF FUNDS								
	ASSESSMENTS		745,328	777,000	777,000	815,000	777,000	-
	Interest		34,027	60,000	60,000	25,000	25,000	(35,000)
	TRANSFERS FROM OPERATIONS		557,426	492,000	492,000	481,000	281,000	(211,000)
	GRANTS AND REIMBURSEMENTS		740,892	1,065,000	1,606,724	1,606,724	563,250	(1,043,474)
	PRIVATE PLACEMENT LOAN		958,118	440,000	1,205,560	550,249	0	(1,205,560)
	TOTAL REVENUE		3,035,791	2,834,000	4,141,284	3,477,973	2,346,703	(1,794,581)
EXPENSES								
	TOTAL DEBT PAYMENTS		1,091,314	1,091,314	1,091,314	1,091,314	1,091,314	-
	CAPITAL EXPENSES		1,158,608	1,600,000	3,586,830	2,117,281	2,588,532	(998,298)
	TOTAL EXPENSES		2,249,922	2,691,314	4,678,144	3,208,595	3,679,846	(998,298)
SURPLUS/DEFICIT			785,870	142,686	(536,860)	269,378	(1,333,143)	(796,283)
FUND AND LOAN BALANCES (EOY)								
	Total District Policy		1,085,081	1,085,152	1,085,152	1,085,152	1,055,122	(30,030)
	TOTAL Reserves EOY		3,652,274	3,821,553	3,687,764	3,531,174	2,261,861	(1,425,903)
	Reserves Above (below) Policy		2,567,193	2,736,401	2,602,612	2,446,022	1,206,740	(1,395,873)

Summary of FY12 Revenues and Expenses. Figures 1 and 2 respectively show District FY 11 revenues and expenses. Note that revenues are enhanced by approximately \$500,000 from the CRDA/RRROC Grant, awaiting approval by the Sonoma County CDC, and Salaries expense is increased by a one-time payment of \$240,000 for retirement expenses.

Figure 1. FY 2012 Revenues
Total = \$3,517,200

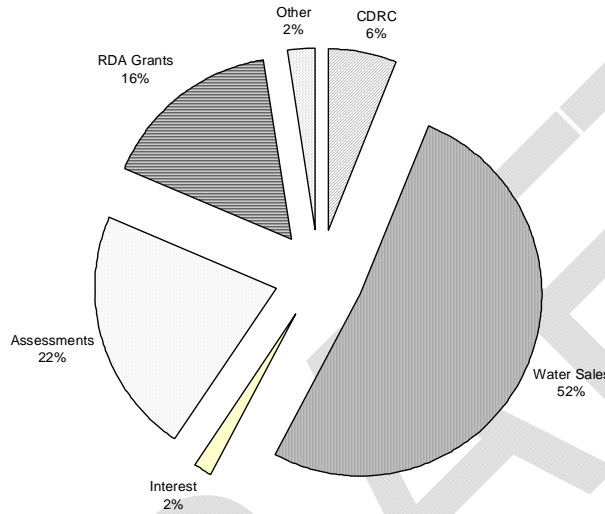
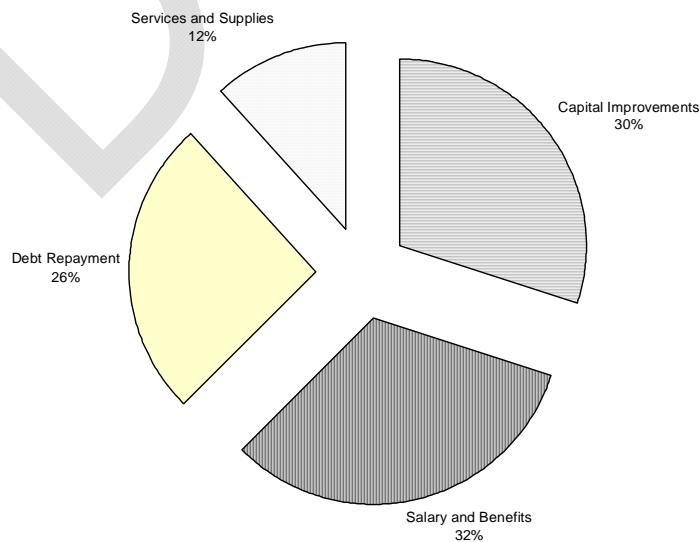


Figure 2. FY 2012 Expenses
Total = \$4,260,456



2011-12 Fiscal Year (FY12) 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 and distributed through approximately 85 miles of distribution pipes 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 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 FY 12 Budget follows the format established in prior years and includes a 3% increase to the Base Rate and Water Usage Charges. There is no change to the Capital Debt Reduction Charge.

3% increase to the Base Rate and Water Usage Charges: The proposed 3% increase is the beginning of a 9-year effort to develop sustainable capital improvement funding. Approximately half of the revenues for the FY12 Budget come from water rates paid in bimonthly bills by District customers (Figure 1). Remaining funding for FY 12 comes mostly from an annual assessment that appears on District property owners' property tax bill, and grant funding. The District is and has been dependent on grant and (in the past) loan proceeds to fund capital improvement projects. However, grant funding cannot be counted on indefinitely, and the District already has a high level of debt. 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 7-year catch up capital improvement program is completed. The financial analysis showed that annual 3% increases will build into \$500,000 available annually for capital projects in 9 years.

FY 2012 CIP and FY 2013 CIP (Table 2): The FY12 Capital Budget includes CIP IV-B, Project 2, which is replacement of approximately 3,100 lf of existing main and appurtenances Western, Eastern and Northern Avenues and Orchard Lane and installation of 1,000 lf of new 8-inch main and appurtenances on Foothill Drive in Monte Rio from B Street northwesterly to end of existing 8-inch main and make connection to other side of Foothill where section of road is closed to through traffic. The Foothill Drive project is being supported by approximately \$500,000 from the RRROC/CRDA. The Western, Eastern and Northern Avenue project is outside the Russian River Redevelopment Area and is not eligible for support.

The FY12 Budget also includes the obligation for funding the FY 2013 CIP, replacement of approximately 1760 ft of main line, 22 services, on Starrett Hill Road in Monte Rio;

replacement of approximately 1440 ft of main line, 24 services, in Lovers Lane in GuerneWood Park; replacement of approximately 1,375 ft of main line, 17 services, on Middle Terrace in Monte Rio; and elimination of dead end mains and creation of loops by installing 1,950 lf of new main and appurtenances in Canyon Seven Rd between Sequoia Rd and Paradise Ln in Rio Nido, which is estimated to cost approximately \$1.3 million. This expense is included in the FY12 Budget because it will be obligated in May or June of the fiscal year. However most of the expense will occur in FY13.

District Reserve Policy: A formal 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:

- Budget Reserve – a reserve based on 10% of the Operating Budget expenses for emergencies, such as a natural disaster.
- Economic Reserve – 15% of the Operating Budget expenses for economic downturn or other economic crisis.
- Debt Repayment Reserve - 15% of the Operating Budget expenses 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, minus \$200,000 cash balance for operating purposes, 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.

Other Financial Assumptions/Highlights of the FY11 Budget include:

- Less water will be sold in FY12 – our assumption is that a 3% rate increase will result in a 2.5% revenue increase in water sales.
- Salaries are increased to match the recently approved Memorandum of Understanding and contracts for nonrepresented employees.
- There is a one-time payment of \$240,000 for the CalPERS Side Fund. The District is being charged 7.75% interest on that fund and funds are available to pay it off.
- Supplies and Services were scrutinized to reflect actual expected costs and are down approximately \$50,000. A notable change is dropping the contract with IEDA, the labor negotiations consultant (approximately \$10,000).
- The transfer to the Capital Improvement Reserve Fund (CIRF) is only \$37,000 to reflect the one-time payment for the CalPERS Side Fund.
- District Revenues are not sufficient to sustain annual capital improvements on the scale funded in FY12. The CRDA/RRROC \$1.5 million grant is a big assist for the FY 12 and FY 13 CIP, but an additional \$2.5 million in assistance is needed to complete the 2012-2018 CIP, after which we hope the District can reduce capital improvements to a level sustainable by District revenues.

Line Item Highlights of the FY12 Budget:

The FY11 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 in the Base Rate and Water Usage Charges and slightly reduced water sales. **Capital Debt Reduction Charge** (CDRC) revenue has been reduced to reflect the actual revenue produced in FY11 as there is no change in the charge. Operating interest is reduced to reflect continuing lower interest on deposited funds.

Under **Expenses, Wages** are up approximately \$33,000 to reflect the salary and benefit changes from the Memorandum of Understanding with represented District Employees and renewed contracts with nonrepresented employees. **Benefits** are much higher than in FY11 reflecting a one-time expense of \$240,000 to pay off the District's CalPERS Side Fund. Wages and Benefits are a major District expense – 74% of the FY12 Operating Budget expenses.

Total Supplies and Services are lower than the FY11 approved budget, and slightly less than the midyear projection. There are small increases in several line items to reflect higher costs, but savings in others. **Office Maintenance** is similar to FY11 reflecting the adjustment to the current computer maintenance cost.

Maintenance/Repair – Facilities is a big cost item in Supplies and Services and has been reduced substantially to reflect expected costs in FY12. **Governmental Fees** has been reduced to reflect expected costs – they were adjusted upward in FY11.

Professional Services continues to decrease to reflect staff's ability to keep consultants' costs down. **Electric and Propane**, has been split into two line items as they are big cost centers which cost move due to different causes – propane is a commodity; electricity costs change more slowly.

Fixed Asset Expenditures are a little lower than the FY11 level which is lower than historical amounts, because the District is not expecting to replace a vehicle in FY11. The expense for roofing the Monte Rio treatment building is included.

The Operating Budget has a surplus of approximately \$307,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Reserve Fund (CIRF), Building Fund, In-House Construction Fund, and CDRC revenue. This is lower than FY11 because of the one-time \$240,000 expense to pay off the CalPERS Side Fund.

The FY12 Capital Budget major expenses are the FY 2012 (estimated cost \$1.35 million) and FY 2013 CIP (estimated cost \$1.3 million), described above and in Table 2.

Capital Interest revenue is estimated conservatively to reflect expected continuing low interest rates this coming year.

Capital Debt is a major expense item – approximately \$1.1 million and 26% of total District annual expenses. District Capital Debt includes:

- General Obligation Bonds – \$12 million in bonds that were approved to purchase the District and make needed capital improvements. Paid off in 2032. Annual payment - \$684,000.
- 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.
- Private Placement Loan. \$3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. Annual payment - \$234,012.

FY 2012 and FY 2013 CIP have funding assistance from the RDA/RRROC grant (Table 2).

The Private Placement Loan proceeds of \$3 million acquired in September 2008 have been completed expended funding District capital projects (CIP IV-A and CIP IV-B).

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 FY12, District Policy Reserves are at \$1,055,122 and Reserves Above District Policy at the end of the year are \$1,206,740.

Table 2. Sweetwater Springs Water District 2012-2013 Capital Improvement Program (CIP)		
Year	Projects	Estimated Cost
2012		
	Western, Eastern and Northern Avenues and Orchard Lane (GV) - Replace 3,100 lf of existing main and appurtenances. (outside Russian River Redevelopment Area, funding assistance not requested)	\$684,000
	Foothill Drive (MR) – Install 1,000 lf of new 8 – inch main and appurtenances from B Street northwesterly to end of existing 8 – inch main and make connection to other side of Foothill where section of road is closed to through traffic.	\$671,000
	2012 Total	\$1,355,000
	75% FY 2012 CIP CRDA Funding Request (Foothill Drive portion only)	\$503,250
2013		
	Starrett Hill Road (MR) Replace approximately 1760 ft of main line, 22 services.	\$380,000
	Lovers Lane (GV) Replace approximately 1440 ft of main line, 24 services.	\$300,000
	Middle Terrace (MR) Replace approximately 1,375 ft of main line, 17 services.	\$290,000
	Canyon Seven Rd (GV) – Eliminate dead end mains and create loops by installing 1,950 lf of new main and appurtenances in Canyon Seven Rd between Sequoia Rd and Paradise Ln.	\$329,000
	2013 Total	\$1,299,000
	75% FY 2013 CIP CRDA Funding Request	\$974,250
	Total 2012-2013 CIP Cost Estimate	\$2,654,000
	Total CRDA Funding Request	\$1,477,500