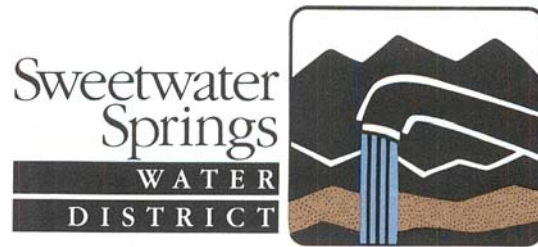


**Exhibit A**



*Sweetwater Springs  
Water District*

**Annual Operating & Capital  
Improvement Budget**

**2017-18 Fiscal Year**

(For the period July 1, 2017 - June 30, 2018)

**Board of Directors**

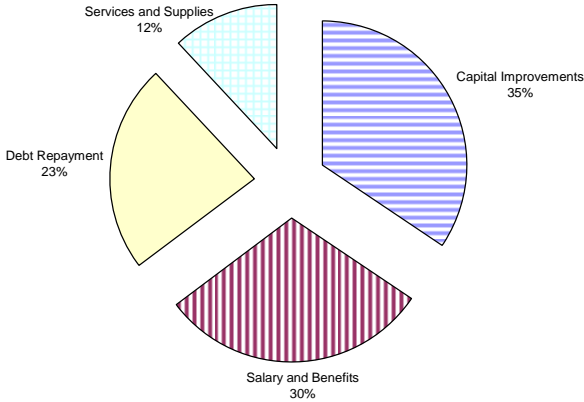
*Sukey Robb-Wilder, President  
Pip Marquez de la Plata, Vice President  
Tim Lipinski, Financial Coordinator  
Gaylord Schaap  
Richard Holmer*

*General Manager  
Steve Mack*

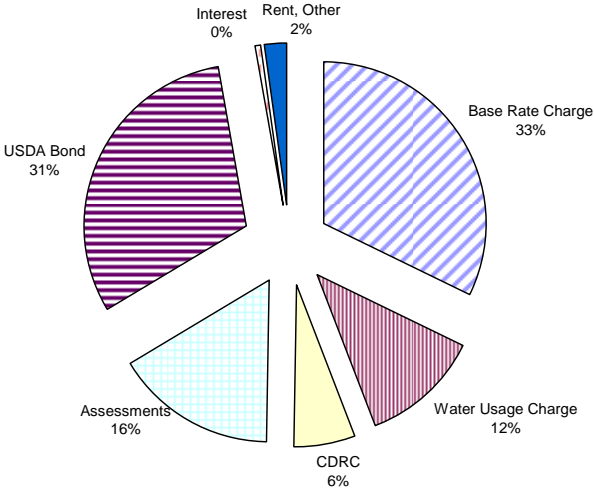
**Sweetwater Springs Water District**  
**Annual Operating & Capital Improvement Budget**  
**2017-18 Fiscal Year**  
**Summary**

In Fiscal Year 2017-2018 (FY18) Sweetwater Springs Water District has budgeted operating expenses of \$1.8 million and capital improvement expenses of \$1.5 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 \$1.5 million from a US Department of Agriculture (USDA) loan for capital improvements.

**Figure 1. FY 2018 Expenses**  
**Total = \$4.3 Million**



**Figure 2. FY18 Sources of Funds to Pay for Expenses**  
**Total = \$4.7 Million**



FY 2017-18 Budget Report  
Sweetwater Springs Water District

Table 1 is a summary of the FY18 Budget which is described in detail in the following pages. The FY18 Budget is similar in form and content to prior years' budgets. The FY18 Budget includes the seventh year of 3% increases for the Base Rate and Water Usage Charges and the fifth year of a 3% increase to the Capital Debt Reduction Charge which are designed to develop sustainable capital project funding.

Table 1. FY 2017-18 OPERATING BUDGET													
								FY 15-16 FINAL (CASH)*	FY16-17 BUDGET	FY 16-17 Projected	FY 17-18 BUDGET	Difference FY18-FY17 Budgets	FY 2017-18
<b>REVENUE</b>													
<b>OPERATING REVENUE</b>													
1		4031 - Water Bill Revenue											
2		4031.1 - Capital Debt Reduction Charge	261,458	269,302	270,500	278,615	9,313						3% rate increase based on projected
3		4031.1 - Water Sales - Base Rate	1,457,538	1,480,664	1,484,000	1,528,520	47,856						3% rate increase based on projected
4		4031.1 - Water Sales - Usage Charges + Other	526,963	563,372	558,600	575,358	11,986						Flat sales, 3% increase based on projected
5		4031.1 - Total Water Sales	1,984,502	2,044,036	2,042,600	2,103,878	59,842						
6		<b>Total OPERATING REVENUE</b>	<b>2,245,959</b>	<b>2,313,338</b>	<b>2,313,100</b>	<b>2,382,493</b>	<b>69,155</b>						
7		<b>Total NON-OPERATING REVENUE</b>	<b>126,559</b>	<b>114,846</b>	<b>118,915</b>	<b>119,600</b>	<b>4,754</b>						
8		<b>Total Income</b>	<b>2,372,518</b>	<b>2,428,184</b>	<b>2,432,015</b>	<b>2,502,093</b>	<b>73,909</b>						
<b>EXPENSES</b>													
<b>OPERATING EXPENSES</b>													
<b>SALARY &amp; BENEFITS</b>													
12		Total Salary	882,336	932,100	889,200	905,120	(26,980)						
13		5920.1 CalPERS UAL Payment				90,000							Total UAL payment; \$37,000 required
14		Total Benefits	281,186	289,789	314,769	395,180	105,391						
15		<b>Total SALARY &amp; BENEFITS</b>	<b>1,163,522</b>	<b>1,221,889</b>	<b>1,203,969</b>	<b>1,300,300</b>	<b>78,411</b>						
16		<b>Total SERVICES &amp; SUPPLIES</b>	<b>440,732</b>	<b>527,910</b>	<b>513,860</b>	<b>533,000</b>	<b>5,090</b>						
17		<b>Total OPERATING EXPENSES</b>	<b>1,604,254</b>	<b>1,749,799</b>	<b>1,717,829</b>	<b>1,833,300</b>	<b>83,501</b>						
18		<b>OPERATING SURPLUS/DEFICIT</b>	<b>\$768,264</b>	<b>\$678,385</b>	<b>\$714,186</b>	<b>\$668,793</b>	<b>\$ (9,592)</b>						
19		<b>Total FIXED ASSET EXPENDITURES</b>	<b>62,633</b>	<b>67,000</b>	<b>61,333</b>	<b>22,000</b>	<b>(45,000)</b>						
<b>TRANSFERS TO OTHER FUNDS</b>													
21		8620.7 - Tfers to CIRF for CDR Revenue	261,565	270,375	270,375	278,615	8,240						
22		8620.3 - Tfers to CIRF - PY Surplus	0	0	50,392	-	-						
23		8620.3 - Tfers to CIRF	320,000	330,000	290,000	320,000	(10,000)						
24		8620.5 - Tfers to Building Fund	15,000	15,000	15,000	15,000	-						
25		8620.2 - Tfers to In-House Constr	25,000	25,000	25,000	25,000	-						
26		<b>Total TRANSFERS TO OTHER FUNDS</b>	<b>621,565</b>	<b>640,375</b>	<b>650,767</b>	<b>638,615</b>	<b>(1,760)</b>						
27		<b>SURPLUS/DEFICIT</b>	<b>84,066</b>	<b>-28,990</b>	<b>2,086</b>	<b>8,178</b>	<b>37,168</b>						
<b>CAPITAL BUDGET</b>													
<b>REVENUE/SOURCES OF FUNDS</b>													
31		<b>TOTAL REVENUE</b>	<b>1,413,597</b>	<b>1,409,302</b>	<b>1,370,500</b>	<b>2,871,615</b>	<b>1,462,313</b>						
<b>EXPENSES</b>													
33		<b>TOTAL DEBT PAYMENTS</b>	<b>1,035,961</b>	<b>1,133,224</b>	<b>1,133,224</b>	<b>1,011,244</b>	<b>(121,980)</b>						
34		Total Capital Expenses	1,186,021	874,000	874,000	1,488,000	614,000						
35		<b>TOTAL EXPENSES</b>	<b>2,221,982</b>	<b>2,007,224</b>	<b>2,007,224</b>	<b>2,499,244</b>	<b>492,020</b>						
36		<b>SURPLUS/DEFICIT</b>	<b>(808,385)</b>	<b>(597,922)</b>	<b>(636,724)</b>	<b>372,371</b>	<b>970,293</b>						Deficit will be made up from District Reserves Net Operating Revenues + Assessments +CDRC+Cap Interest-Total Debt Payments
37		Net Capital Funding	436,702	222,088	214,362	380,549							
<b>FUND AND LOAN BALANCES (EOY)</b>													
<b>DISTRICT RESERVES AND FUND AND LOAN BALANCES</b>													
40		Operating Budget Cash Reserve	255,061	262,174	262,174	274,995	12,821						
41		Operating Budget Reserve (10%+15% of Operating Exp)	425,102	436,956	436,956	458,325	21,369						
42		Debt Repayment Reserve (25% of Debt pmt)	258,777	258,777	258,777	252,811	(5,966)						
43		Capital Reserve	250,000	250,000	250,000	250,000	-						
44		<b>Total District Policy</b>	<b>1,188,940</b>	<b>1,207,906</b>	<b>1,207,907</b>	<b>1,236,131</b>	<b>28,225</b>						
45		<b>TOTAL Reserves EOY</b>	<b>2,259,513</b>	<b>1,648,674</b>	<b>1,690,142</b>	<b>2,232,430</b>	<b>583,756</b>						For FY18 adding State Loan Reserve Payment (1000)
46		<b>Reserves Above (below) Policy</b>	<b>1,070,573</b>	<b>440,768</b>	<b>482,235</b>	<b>996,299</b>	<b>555,531</b>						
<b>DISTRICT FUNDS</b>													
49		<b>CIRF (7106-0600)</b>	<b>(247,764)</b>	<b>(825,642)</b>	<b>(833,764)</b>	<b>(334,700)</b>	<b>490,942</b>						
50		<b>OPERATING RESERVE (0300)</b>	<b>425,102</b>	<b>425,102</b>	<b>436,956</b>	<b>458,325</b>	<b>33,223</b>						
51		<b>OPERATIONS (0100)</b>	<b>324,421</b>	<b>249,830</b>	<b>262,174</b>	<b>274,995</b>	<b>25,165</b>						
52		<b>CAPITAL AND DEBT POLICY RESERVE (1100)</b>	<b>510,829</b>	<b>508,777</b>	<b>508,777</b>	<b>502,811</b>	<b>(5,966)</b>						
53		<b>IN HOUSE CONSTRUCTION (0500)</b>	<b>93,525</b>	<b>104,315</b>	<b>104,315</b>	<b>104,315</b>	<b>-</b>						
54		<b>BUILDING (0200)</b>	<b>180,850</b>	<b>198,850</b>	<b>198,850</b>	<b>213,850</b>	<b>15,000</b>						
55		<b>CAP ONE AND CITIZENS BANK LOAN (1200)</b>	<b>802,112</b>	<b>802,112</b>	<b>802,112</b>	<b>802,112</b>	<b>-</b>						
56		<b>FEDERAL LOANS AND BONDS (0400)</b>	<b>-</b>	<b>64,284</b>	<b>64,284</b>	<b>64,284</b>	<b>-</b>						
57		<b>STATE LOANS (0700,0900)</b>	<b>170,438</b>	<b>146,438</b>	<b>146,438</b>	<b>146,438</b>	<b>-</b>						

## 2017-18 Fiscal Year (FY18) 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 FY18 Budget follows the format established in prior years and includes the seventh consecutive year of a 3% increase to the Base Rate and Water Usage Charges, and the fifth 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 FY18 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 seventh 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 \$400,000.** 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 37 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 substantial increase because of decreased debt payments and reduced operations expenses, plus the effect of the 3% water rate increase. We believe that Net Capital Funding should be near \$500,000 for a sustainable capital improvement program for the District.

The recent drought has had a big impact on the budget planning in this and future years. Water sales will continue to be depressed as water use habits recover from the drought restrictions required by the State. Water use in FY 2017 was lower than State direction even though that direction has eased - approximately 83% of 2013 which is the State Board standard. 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 and customer use

FY 2017-18 Budget Report  
Sweetwater Springs Water District

rebounds from those restrictions, water sales revenue will increase and the District will move toward reaching the \$500,000 net capital funding goal.

**FY 2018 CIP (Table 2):** The FY18 Capital Budget has completion of Phases 2 and 3 of the 2017 CIP. This will be funded by a U.S. Department of Agriculture loan of approximately \$1.5 million. The revised FY17 Budget includes Phase 1 of the River Road/Old River Project and we expect construction of this project to carryover into FY18.

**Addressing CalPERS retirement program Unfunded Accrued Liability (UAL):** The FY18 Budget has a new line item to identify and make accelerated payments for the CalPERS UAL. The Board has determined that this item needs special attention as it will continue to impact District finances for many years. The FY18 payment is \$90,000.

**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 FY18 Budget projects a District Policy Reserve of \$1,236,131 and \$996,299 in Reserves Above Policy at the end of the fiscal year. .

**Other 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 FY18 water usage revenues are estimated to increase by 3% over the amount projected at the end of FY17. The drought is over but it will likely take a while for sales to start increasing, thus affecting Water Usage charge revenue.**
- **Salaries and Retirement have been adjusted to reflect year 3 of the 2015 Union Memorandum of Understanding.**

**Line Item Highlights of the FY18 Budget:**

**The FY18 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. The 3% water rate increase will increase District revenues by approximately \$70,000. 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 \$78,000 over the projected FY17 budget largely because of the increased payment for the UAL. Salaries and Benefits are a major District expense – approximately 70% of the FY18 Operating Budget expenses.

**Total Supplies and Services** are approximately \$5,000 higher than the FY17 approved budget. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and is budgeted at a similar amount for FY18. **Governmental Fees** and **Professional Services** are budgeted to increase by \$1,000. **Electricity** is a big expense item and is budgeted to be \$5,000 more than FY17 and is the major expense difference in this category.

**Fixed Asset Expenditures** are lower than FY16 because we are not purchasing a truck this year. 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 Rio Nido Tank.

The Operating Budget has a surplus of approximately \$670,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Revenue Fund (CIRF) (\$320,000) Building Fund (\$15,000), In-House Construction Fund (\$25,000), and CDRC revenue (\$278,615).

**The FY18 Capital Budget major capital expense is completion of Phases 2 and 3 of the 2017 CIP described in Table 2. The CIP will be funded by a USDA bond.**

**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 FY18. District Capital Debt includes:

- 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. Annual payment - \$64,284, remaining principal is \$1,622,728. Paid off in 2054.

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- Cap One Bond – The District refinanced the first 20 years of the GO Bonds in September 2013. Paid off in 2033, the FY18 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. The smaller loan was paid off in September 2016; the second loan will be completed in 2022. Annual payment - \$146,438. Remaining principal is \$800,765.70.
- 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. The interest rate for this loan will reset in 2018 and will be reduced from 4.75% to 3.10%, reducing the annual payment by approximately \$18,000 .

**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 FY18, District Policy Reserves are at \$1,236,131 and Reserves Above District Policy at the end of the fiscal year are \$996,299.

The detailed FY18 Budget is included as Attachment A.

Year	Projects	Estimated Cost
2017		
	Phase 1, Old River Road/River Road (GV) - replace approximately 2200 ft of existing main and 17 services on River Rd from Rio Nido to Old River Road near Outlet Drive.	\$874,000
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 Drive.	\$1,488,000