

# SWEETWATER SPRINGS WATER DISTRICT

**TO:** Board of Directors

**AGENDA NO. V-D**

**FROM:** Steve Mack, General Manager

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Meeting Date: March 3, 2016

**SUBJECT: DRAFT FY 2016-2017 BUDGET**

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**RECOMMENDED ACTION:** Receive a report on the Draft District FY 2016-2017 Budget, including the District's proposed water rates based on a 3% increase, and review of the Draft Budget, and provide direction to staff and the *ad hoc* Budget subcommittee.

**FISCAL IMPACT:** Provides financial direction for FY 2016-2017.

## **DISCUSSION:**

The *ad hoc* Budget Subcommittee has had two meetings to discuss the draft 2016-2017 Budget which is being presented at this meeting (the line item draft Budget is attached as Exhibit A). Among the issues we have discussed (and shared in part with the Board at the February meeting):

### **Proposed FY 2016-2017 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 21 to District property owners.

### **Fiscal Year 2015-2016 (FY16) Budget**

The draft FY16 Budget detail is attached as Exhibit A. 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 Subcommittee in two meetings in January and February. Staff have met several times to develop the appropriate line item amounts for the Operating section of the Budget.

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 FY17 water usage revenues are

estimated to increase by 3% over the amount projected at the end of FY16. The ongoing drought situation may further decrease water sales, thus affecting Water Usage charge revenue, but we expect this to balance out over the full year.

- Salaries and Retirement have been adjusted to reflect the recent Union Memorandum of Understanding.

Highlights of the Draft FY17 Operating Budget include:

- The 3% water rate increase will increase District revenues by approximately \$57,000.
- Supplies and Services were scrutinized to reflect actual expected costs and have decreased approximately \$8,000 compared to the FY16 Budgeted.
- Expenditures for Tanks and Facilities include a liner for the Park Avenue Tank and road improvements for the Monte Rio Tanks.
- We have included a truck purchase estimated at \$45,000.
- The transfer to the Capital Improvement Reserve Fund (CIRF) is \$330,000 which is a reflection of the effect of decreased water sales during this extended drought.

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 changes in this Budget is the acquisition of a USDA loan/bond and the construction of a larger-than-usual project, the Old River Road/River Road water main replacement project which has an estimated cost of approximately \$1.98 million plus engineering and legal costs. The Budget includes a USDA loan/bond at \$2.1 million and that will be adjusted as we learn more about what USDA will loan the District.

In most years the following year CIP is included in the Budget because the contract award is planned for the prior-year fiscal year even though most costs will not happen until the following fiscal year. That is not the case in this Budget because the 2018 CIP is relatively small (Monte Rio Treatment Plant filter replacement) and all costs are not expected until FY 2018.

Total District debt is \$11,730,752 as of the end of Calendar Year 2015:

USDA GO Bonds:	\$1,622,728
State Loans:	\$ 980,093
Private Placement Loan:	\$2,186,931
Cap One Bond:	\$6,941,000

## **District Reserves**

The FY16 Budget lists the District Reserve Policy amounts 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 \$1,207,907 and \$2,490,073 in Reserves Above Policy at the end of the fiscal year.

### **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 21, 2016. 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 2017 and will include the proposed rate schedules and a protest form.

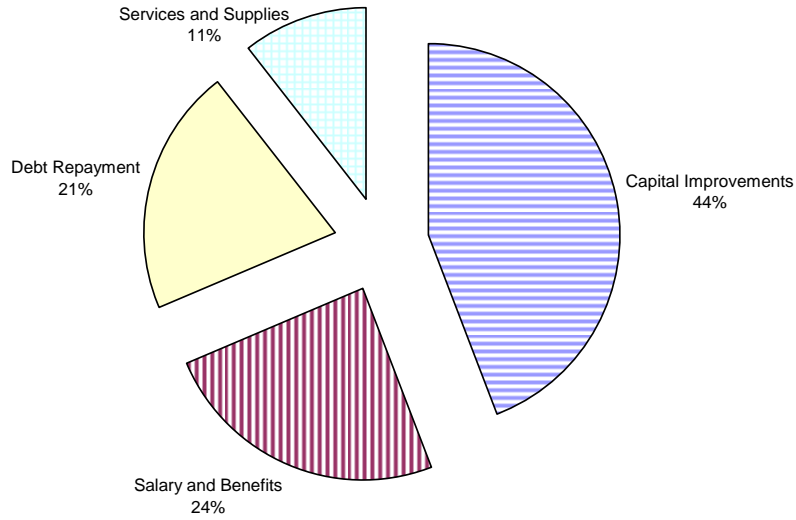
<b>Table 1. FY 2016-2017 Budget Preparation</b>	
Review Capital Improvement Program	December 3, 2015
Budget Committee meetings	February/March 2016
Draft Budget to Board for Discussion/Action, Including Direction on Water Rates	March 3, 2016
Prop 218 Mailing for Water Rate Increase, if necessary	March 21, 2016
Draft Budget to Board for Discussion/Action	April 7, 2016
Approve Budget <ul style="list-style-type: none"><li>• Prop 218 Public Hearing on Rates, if necessary</li></ul>	May 5, 2016

<b>Table 2. Proposed Sweetwater Springs Water District Bimonthly Water Rates for FY 2016-17, 3% Increase for Water Usage and Base Rates, and CDRC</b>							
Meter Size (in)	Base Rate	Water Usage Rate				Capital Debt Reduction Charge	Base Rate + CDRC
		Tier 1	Tier 2	Tier 3	Tier 4		
		1.35	2.75	4.10	5.95		
		Max Usage (Hcf)	Max Usage (Hcf)	Max Usage (Hcf)	Max Usage (Hcf)		
0.625	59.70	8	20	80	>80	\$10.90	\$70.60
1	149.25	20	50	200	>200	\$27.25	\$176.50
1.5	298.50	40	100	400	>400	\$54.50	\$353.00
2	477.60	64	160	640	>640	\$87.20	\$564.80

- The Base Rate and Capital Debt Reduction Charge (CDRC) increases for meter sizes larger than 0.625 apply only to Commercial and Public accounts.
- The Base Rate and CDRC are also increased by the Multiple Unit Multiplier of 0.55 for Multi-Family accounts. For examples, with a 2 unit account, the Base Rate is \$92.54 and the CDRC is \$16.90.

<b>Table3. 3% Water Rate Increase Effect on Typical Water Users by Class (100 cubic feet (Units), FY16-17</b>						
	Single Family Residential		Multi-Family Residential, 2 Units		Commercial 5/8 Meter	
<b>Number of Accounts</b>	3060		284		135	
	Median	90%	Median	90%	Median	90%
<b>Median Water Use</b>	7	22	12	32	15	82
<b>Median Bill Current</b>	\$78.00	\$119.15	\$122.45	\$176.28	\$97.90	\$362.75
<b>Median Bill Proposed</b>	\$80.05	\$122.60	\$125.63	\$181.42	\$100.65	\$372.30
<b>Bimonthly Difference</b>	\$2.05	\$3.45	\$3.18	\$5.14	\$2.75	\$9.55
<b>% Increase</b>	2.6%	2.9%	2.6%	2.9%	2.8%	2.6%

**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

