

# **PROPOSED BUDGET**

**2018/19**

## INTRODUCTION:

The proposed budget is being presented with the assumption that the proposed rates will be adopted. Although we had incurred approximately \$80,000 in new expense approved by the Board after the 2017/18 budget was adopted, our bottom line expenses only were about \$16,800 more. This was achieved because several items came in less than projected which I would like to highlight:

- Insurance - The expenses were less due do two reasons.
  - The experience modification factor (“mod” factor) in the Workers’ Comp Program was reduced from 1.78 to .78.
  - The District received nearly \$9,000 in premium refunds in the Liability Program in April 2018 which was not anticipated. Refunds are based on claims the JPIA has received and paid out over the last five years.
  
- Professional Administrative Fees – This expense was significantly less due to the State Water Board adopting a fee schedule that benefits small districts. However, part of the new regulations adopted allows them to adjust their fees anytime by an emergency regulation process.
  - For the 2018/19 budget and future years, I have accounted for a fee increase.
  
- Professional Meetings - With the failed 2017 increase, the Board decided not to attend any conferences in 2017/18 which kept the Professional Meetings to a minimum. While this was necessary given our circumstances, I do not recommend that the District keep with this policy. The Association of California Water Agencies and the ACWA/Joint Powers Insurance Authority have board meetings during the conference and the District needs to have representation present to vote on our behalf. Also, the training and the connections made at conference are beneficial to the District.

Most accounts are self-explanatory as to what is included in that line item. There are four accounts that may need some explanation. Below is a chart of the four accounts and items that are **typically** included in each account:

Office Expense	Repairs & Maintenance	Professional Administration	Professional Dues (Organizations)
Rent (Maryal)	Leak Repairs	SWRCB - Annual Fees	AWWA
Phone Service	Field Equipment	NPDES annual permit	ACWA
Internet (both)	Field Supplies	CalPERS-Actuarial Report	CSDA
Sewer & garbage (Lusk)	Gas for vehicles	LAFCo Fees	CRWA
Postage	Vehicle repairs/maintenance	Air Quality Permits	RWA
Printing	Dump fees	Encroachment Permits	RWA Lobby Program
Printer supplies	Chlorine		SGA
Computers & supplies	Lubrication oil		SAWWA
Office supplies	Maintenance/Repairs to wells		
Answering service	Cellular mobile service		
Office furniture (if any)	Tesco Service Contract		
GASB 75 valuations	Aqua Sierra Service Contract		
Website	Permit for sewer discharge		
Outreach			

As you review the Revenue for the Operations & Maintenance, I tried to make it easier to understand. The "Reserves" are, of course, estimated from the 2017/18 fiscal year forward. However, with this format, I believe you can look at the audit and adjust each as in the 2016/17 actual. Please note that the "revenue" is what is charged for the year and is not what is actually collected. Again, these are estimates but I believe you can follow the audit numbers and adjust each year. The following year budgets will be adjusted with the actuals from the previous year audit.

The Planned System Maintenance budget is rather simple. In the 2017/18 fiscal year, we only had the Well #7 project. We hope to finish the work and have the well back on line by June 30, 2018; however, the flushing element has been a challenge due to the lot size and the actual flushing may take longer than anticipated. If it does not get finished, some of the \$18,000 expenses for the year may need to be carried forward to the 2018/19 fiscal year. I included SCADA and fencing for 2018/19 at Well #7. SCADA may be necessary if usage increases or other conditions occur in our production system and we need to operate the well on a more continuous basis. The SCADA controls will be housed in a locked cabinet; however, if vandalism occurs, fencing the site may be necessary. The debt service payment amount is assuming the Board adopts the refinancing of the existing bond. Again, these are estimates. The budget amount for consultants may be high but the scope of work has not yet been determined by the Board; please remember a budget is a planning document and it is better to plan high on expenses than too low. For the 2019/20, I expect that we may need to have another rate study performed to address the "Planned System Maintenance" rate. This amount includes a rate study as well as the Proposition 218 expense.

## **RECOMMENDATIONS:**

I recommend approval of the 2018/19 budget. I also recommend that the approval comes with the Board giving two directions to the Manager as follows:

1. As mentioned in my revenue comments, I feel with the adoption of this budget, we discuss assigning a percentage for each job classification to O&M and PSM in order to account for employee compensation expense spent on operations and planned system maintenance. I recommend the Board direct the Manager to have this as a discussion item for the July or August Board meeting.

2. The Board made a policy decision to fund the CalPERS unfunded pension liabilities at 85%. CalPERS has made changes to the Unfunded Accrued Liability (UAL) policy and can prepare accelerated funding options for agencies. An agency can request the CalPERS actuary to perform valuations to achieve different goals as long as the changes do not result in a deferral of funding. My recommendation is for you to direct the Manager to contact CalPERS and request an actuary study be performed to meet the 85% funding, possibly at different amortization schedules in order to determine the best scenario for the District.

# **Operations & Maintenance Budget**



<u>Account</u>	16/17		17/18		17/18		17/18		19/20		20/21	
	<u>Actual</u>	<u>Budgeted</u>	<u>9-Month Actual</u>	<u>12-Month Estimated</u>	<u>18/19 Proposed</u>	<u>19/20 Projected</u>	<u>20/21 Projected</u>	<u>18/19 Proposed</u>	<u>19/20 Projected</u>	<u>20/21 Projected</u>	<u>20/21 Projected</u>	<u>20/21 Projected</u>
Prof. Administration Fees	20686.00	22000.00	14149.25	14149.25 <sup>5</sup>	18000.00 <sup>18</sup>	18600.00	19200.00	18000.00	18600.00	19200.00	19200.00	19200.00
Bank Charges	182.15	300.00	454.87	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00
Professional Dues	40283.00	47000.00	40888.00	40888.00 <sup>6</sup>	40000.00 <sup>19</sup>	42500.00 <sup>24</sup>	46000.00	40000.00	42500.00	46000.00	46000.00	46000.00
Professional Meetings	16964.74	15000.00	857.69	1200.00 <sup>7</sup>	17500.00 <sup>20</sup>	18500.00	19500.00	17500.00	18500.00	19500.00	19500.00	19500.00
Cert/Continuing Education	715.01	3000.00	665.00	1110.00	3000.00	3500.00	3500.00	3000.00	3500.00	3500.00	3500.00	3500.00
<b>TOTALS</b>	<b>998403.07</b>	<b>1036143.16</b>	<b>786610.04</b>	<b>1052949.39</b>	<b>1171984.56</b>	<b>1262141.64</b>	<b>1196867.56</b>	<b>1171984.56</b>	<b>1262141.64</b>	<b>1196867.56</b>	<b>1196867.56</b>	<b>1196867.56</b>

## WATER REVENUE (WITHOUT SYSTEM MAINTENANCE CHARGES)

REVENUE	Estimated 2017/2018	Estimated 2018/2019	Projected 2019/2020	Projected 2020/2021
WATER CHARGES				
Monthly Accounts (Meters)	293,000.00	484,000.00	484,000.00	484,000.00
Bi-Monthly Accounts (Flat Rate)	495,793.75	847,700.00	847,700.00	847,700.00
OTHER WATER SALES & MISCELLANEOUS	7,200.00	1,500.00	1,500.00	1,500.00
Sub-Total	795,993.75	1,333,200.00	1,333,200.00	1,333,200.00
INTEREST	7,511.00	9,500.00	10,000.00	10,500.00
UNCOLLECTABLES**	-	-	-	-
TOTAL	803,504.75	1,342,700.00	1,343,200.00	1,343,700.00

## ESTIMATED CASH AT YEAR END

REVENUE	803,504.75	1,342,700.00	1,333,200.00	1,343,700.00
LESS PROJECTED EXPENSES	1,052,949.39	1,171,984.56	1,262,141.64	1,196,867.56
TOTAL Cash at Year End	(249,444.64)	170,715.44	71,058.36	146,832.44

	Actual	Estimated	Estimated	Projected	Projected
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
<b>CASH &amp; RESERVES</b>					
Cash (Petty & Drawer)	300.00	300.00	300.00	300.00	300.00
Bank Balance of 6/30	658,486.44	596,500.00	815,000.00	321,500.00	221,415.34
Local Agency Investment Fund Balance as of June 30th	635,805.00	643,316.00	652,816.00	662,816.00	673,316.00
TOTAL CASH	1,294,591.44	1,240,116.00	1,468,116.00	984,616.00	895,031.34
Planned System Maintenance Portion (Estimated)	763,277.00	960,517.25	1,017,781.25	453,065.05	216,647.95
O&M Portion (Estimated)	531,314.44	279,598.75	450,334.75	531,550.95	678,383.39
	1,294,591.44	1,240,116.00	1,468,116.00	984,616.00	895,031.34

## COMMENTS

### Budget

- 1 The amount is considerably less as the "mod" factor for worker's comp was reduced and we received a big refund for the liability program. For future years, I am estimating that our "mod" factor will remain at the lower level.
- 2 This amount includes some engineering that may be required for the Del Paso Manor School project which we will pay for, but we will get reimbursed in the next fiscal year.
- 3 After the budget was approved, the Board decided to move forward with a new rate study, a website, and outreach in order to have a new rate increase proposed. The total cost for these items, as well as the new Proposition 218 proceedings along with several community meetings, is estimated to be \$80,000.00.
- 4 This amount is more than budgeted since the District requested additional work to provide the supplemental reports. The supplemental reports, as well as the additional work as required by the GASB rules, are included in the 2018/19 budget amount.
- 5 This item is much lower because the State Water Resource Control Board adopted a new schedule based on number of connections rather than hours spent on each system.
- 6 The RWA Lobby Program restructured their fee structure, which reduced Del Paso Manor Water District's share of the program cost by 50%.
- 7 Due to the rate increase of 2017 not passing, the Board opted not to attend any conferences until rates were approved which reduced this item. However, by doing this, the District did not have representation or votes at the ACWA and ACWA/JPIA meetings. I have budgeted for attendance at these as representation is important to the District as well as the Board training that is received at the conferences.

- 8 Reflects a 1.9% cost of living adjustment based on the Consumer Price Index, All Cities U.S., for the twelve-month period ending January 2018. It also reflects possible salary adjustments based on the approved salary range approved June 1, 2015, if goals are met. The General Manager's salary only reflects the COLA adjustment. The amount also includes estimated staff overtime.
- 9 This amount reflects participating in the RWA Water Efficiency Program and implementing a conservation patrol in April 2019.
- 10 This amount includes the normal operation and maintenance costs of \$95,000 and the amount of \$45,000 for work at Well #3 and Well #8. The other \$10,000 of the \$55,000 discussed in the rate discussions was for the initial site analysis for Well #3 regarding 1,2,3-TCP was moved to the more appropriate fund of Engineering.
- 11 Testing requirements vary year by year as some tests are required yearly and others every 3, 6, or 9 year cycles. This amount also reflects some additional iron and asbestos testing as well as inorganics and radionuclides for Well #6 the State Water Resource Board has requested in the 2017 inspection of our system. Costs for additional lead testing in schools or daycare centers is not included, which may be required if legislation is passed.
- 12 Includes general engineering that may be required throughout the year, as well as a first phase work for Well #3 regarding 1,2,3 -TCP.
- 13 The budgeted amount includes the new ongoing expense of the website and outreach of a little over \$20000. It also includes costs for the new "annual" valuation report for OPEB and for the consultant to present the report to the Board. Lastly, I included an amount to cover the cost of issuing an RPF for a new auditor for the 18/19 audit.
- 14 Includes the cost of an election and funds to potentially recruit a new General Manager.
- 15 This amount is based on the projected 18/19 employer's rate as well as the lump sum payment required for unfunded liabilities.

- 16 Expected increases have not been announced by CalPERS, so a 10% increase was used. No increases for dental, vision, or EAP are expected.
- 17 We have not received our OPEB valuation, so this amount is unknown. I used an 3% increase; however, I believe it may be in the District's best interest to have the consultant calculate the annual amount to fully fund over the period the Board elects as this is no longer done automatically with the new GASB rules.
- 18 This amount reflects the potential increase in administrative fees and a slight increase in the SWRCB fees. The law that was adopted allows for the SRWCB to adopt new fees by an emergency regulation.
- 19 The amount reflects the projected dues increases for each of the organizations. The amount also reflects the RWA Lobby Program to come under the RWA Core program 1/1/19 which will reduce our overall costs a little.
- 20 As mentioned in note 6, the District did not have representation or votes at the ACWA and ACWA/JPIA meetings. I have budgeted for attendance at these as representation is very important to the District as well as Board and Manager training received at the conferences.
- 21 As discussed, if a new manager is hired, this amount includes the cost of a transition period.
- 22 This amount includes normal repairs and maintenance costs and additional work at two older wells, as well as the replacement of a District truck that will be ten years old.
- 23 This amount includes health insurance for an additional person during the transition period of the general manager if the Board chooses to implement a change.
- 24 This amount includes a slight increase in most organizations except RWA and SGA. RWA is projecting the rates to increase about 10% in 2019/20. I budgeted a 25% increase in SGA for two reasons: (1) the rates are based on the preceding five-year production average and the District's production is increasing slightly, and (2) the additional costs of SGMA are unknown at this time.

## **Revenue**

The revenue for the current fiscal year is estimated based on current rates. The next fiscal year and two-year projection is estimated based on the adoption of the proposed rates. It is estimated that the O&M reserve will be reduced by approximately \$250,000 with the 2017/18 estimated expenses. Our interest revenue was higher than projected as well as "other water sales & miscellaneous" due to collection of fees for fire flow testing and other service charges.

As I commented last year, Del Paso Manor Water District does not utilize cost accounting; therefore, over the last eight years there has been many employee hours spent on Master Plan projects which should have been carried over and included in "direct expenses" for the Planned System Maintenance fund. Since the Board decided to keep the two funds, I highly recommend the Board have a discussion about possibly adopting a policy at the July or August Board meeting stating what percentage of each job classification is spent on "Planned System Maintenance" work and that percentage of compensation expense is charged to the Planned System Maintenance fund.

# **Planned System Maintenance Budget**

# SYSTEM MAINTENANCE BUDGET

## SUMMARY TO JUNE 30, 2018

REVENUE	
Cash per 2016/17 Audit	\$ 763,277.00
SMC Charged 2017/18 (Estimated)	\$ 595,777.75 <sup>1</sup>
<b>TOTAL</b>	<b>\$ 1,359,054.75</b>

EXPENSES	
Debt Service	\$ 373,037.50
Direct Expenses (Estimated)*	\$ 18,000.00 <sup>2</sup>
<b>TOTAL</b>	<b>\$ 391,037.50</b>

**ESTIMATED Year End 17/18 960,517.25**

*Direct Expenses in FY 2017-18	
Well #7	18,000.00
<b>TOTAL</b>	<b>18,000.00</b>

**BOND BALANCE\* \$4,840,000.00**

\*Includes payment made in June but is applied July 1st

## PROPOSED BUDGET

### REVENUE

Estimated Year End Balance  
Projected SMC Charges

### TOTAL

	Proposed 2018-2019	Projected 2019-2020	Projected 2020-2021
	960,517.25	1,017,781.65	453,065.05
	595,805.40	595,805.40	595,805.40
<b>TOTAL</b>	<b>1,556,322.65</b>	<b>1,613,587.05</b>	<b>1,048,870.45</b>

### ESTIMATED EXPENSES

Debt Payment<sup>3</sup>  
Well #7 SCADA & Fencing<sup>4</sup>  
Well #6B - Shed & Spoils area  
Consultants (Master Plan, Outreach, LT Financial Plan, Grants, etc)  
Rate Increase Proposal (Rate Study & 218 Process)  
DPMWD/CWD Intertie Project (assuming 50% grant)  
Initial Engineering & RFP for next projects  
Land Purchase (Well Site/Office Building)

### TOTAL

	351,541.00	375,522.00	347,222.50
	30,000.00		
	7,000.00		
	150,000.00	100,000.00	10,000.00
		35,000.00	
		650,000.00	100,000.00
<b>TOTAL</b>	<b>538,541.00</b>	<b>1,160,522.00</b>	<b>832,222.50</b>

### PROJECTED YEAR END BALANCE

	1,017,781.65	453,065.05	216,647.95
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## COMMENTS

### SMC Budget

- 1 This is the amount charged, not the amount received.
- 2 We are estimating that Well #7 will be up and on line by fiscal year end; however, if the flushing can not be completed by then some of this amount will need to be carried forward to the next fiscal year.
- 3 This debt payment is based on projection with the new refinancing.
- 4 If we determine we need to operate Well #7 on a more continuous basis if demand increases and other conditions occur in the system, we will need to equip Well #7 with SCADA. We are not planning fencing at the site, but if vandalism begins to occur, we will need to add fencing. Only time will tell on these two items.