

Lake Don Pedro Community Services District

Regular Meeting of June 19, 2017

AGENDA SUPPORTING DATA

5. DISCUSSION AND ACTION ITEMS

- a. Adoption of a resolution approving the Preliminary Draft 2017-18 Fiscal Year budget and setting a public hearing for August 21, 2017 for adoption of the final budget.

Recommended Action

Staff recommends the following motion:

I move to adopt the resolution approving the Preliminary Draft 2017-18 Fiscal Year budget and setting a public hearing for August 21, 2017 for adoption of the final budget.

Background

Throughout the budget year, management and staff are preparing for the upcoming year budget by identifying needed projects, changes in operations that affect costs, equipment needs, areas where prior year's budget was inadequate, etc. In developing the upcoming budget draft, management will project the revenue and expenses through the remainder of the fiscal year, and use our past experience and future estimations to develop as accurate of a budget as possible.

The development of the small public agency budget is as much an exercise in public outreach and education as it is in finance and fiscal accountability. Effective special district budgets tie directly to management goals and objectives, are simply presented and easily understood by the average District service customer. The budget is truly an estimate of revenue and expenses for the year, and due to the nature of our service and the many unknowns, expenses can occasionally change unexpectedly during the year and adjustments necessary along the way.

We are proposing that the Board adopt a Preliminary Budget prior to the start of our July 1, 2017/18 fiscal year, and then adopt a final budget in August 2017, before the September 1 deadline. The Public Notice included with this agenda item will be published after the Preliminary budget is adopted, and will notify the public of our August 21, 2017 Public Hearing to be held prior to adoption of the Final Budget.

Transparency

To provide a basis of budget understanding, the assumptions, criteria and procedure of budget development is articulated in this memorandum to offer the reader with the background necessary to comprehend the methodology used and performance to budget within the year currently coming to a close; as well as the ability to transition into

the upcoming budget year with the information necessary to identify trends, financial red flags, budget influences and other factors. The budgeting exercise is therefore used as a vehicle to increase financial transparency and accountability.

Accountability

Budgeting is also a management tool used to continuously refine financial accounting methods to evaluate the impact of delivering various levels of public services. For example, we need to be able to not only quickly recognize when we have underestimated cost for materials and supplies; we should also have the ability to know whether it was a lack of treatment plant maintenance or chemical cost increases that produced the overrun.

Criteria

The following budget development criteria were reviewed by the Board in May 2017 and used in development of the Preliminary Draft budget:

1. Comply with all applicable laws and regulations
2. Develop revenue projections within the existing rate structure for both base rate and consumptive charges
3. Increase level of maintenance to industry standards
4. Continue progress on major capital improvement projects
5. Plan to increase staff efficiency and competency in their positions
6. Implement any remaining strategic plan items including increased customer communication

Assumptions

The following budget assumptions were reviewed by the Board in May 2017 and were used in development of the 2017/18 Preliminary Budget:

Revenue-

1. Water consumption will increase by 5% over 2016 due to the end of the drought
2. Customer count will remain constant with five new connections projected
 - a. Connection fees budgeted the same as projected through June 30, 2017
 - b. Base rate revenue budgeted the same as projected through June 30, 2017
3. Penalty revenue will be the same as projected through June 30, 2017
4. New grant revenue will offset grant project expenses
5. New ATT agreement will increase lease revenue by \$1,800 per month for six months of the fiscal year
6. Investment interest will remain the same as projected through June 30, 2017
7. Reserve fund balance starts the year at \$600,000

Expenses –

1. Staff head count will remain the same as FYE 2017
2. Employee wages and related expenses will increase by 5%.
3. Medical, dental and vision insurance will increase by no more than 10%

4. Travel and training expense will increase to support training and certification of operations staff to increase competencies and efficiency
5. Plant and distribution system expenses will increase by 20% over FYE 2017 to reflect added maintenance
6. Vehicle maintenance costs will be consistent with the amount budgeted or 2016/17, but the chances of major repairs such as motor or transmission failure has increased due to age
7. Water testing fees will increase by 25% due to state required sampling of new wells; as a new source
8. Well power costs will be consistent with 2016/17
9. Intake power costs will decrease by 5% due to higher water levels, even considering higher water consumption predicted
10. Chemical costs, materials and supplies will increase by 3% over FYE 2017 due to price increases
11. General office supply costs will increase by 2% over FYE 2017
12. Retired employee health benefits will be budgeted and expensed in the same manner as FYE 2017, but no cash is actually deposited into a reserve account
13. No election expenses
14. The barge renovation will be completed
15. Intake Booster 2 will be completed
16. Planning and design for the replacement/lower Barrett Cove intake is recommended; to prepare the project for construction and more likely opportunity for grant funding
17. A contribution of up to \$200,000 to reserves will be necessary to complete the Service line replacement, Phase 1 if grant funded by DWR or others.
18. Consulting expenses of up to \$50,000 will be budgeted to evaluate future rates and assessments (standby fees) necessary to fund the district capital improvement program

The following budget assumptions were added following the May 2017 Board meeting, and are reflected in the Preliminary Budget figures:

1. An Operations Manager position is added to the organizational chart, who will have day to day responsibility for the leadership of the operations crew, system maintenance, recordkeeping, training, performance monitoring. The total operations employee count will not increase.
2. Contracting for the engineering evaluation and recommendation of a reasonable capital improvement program (CIP) to be adopted by the Board
3. Contracting for the preparation of a connection fee study, based on the approved CIP to ensure that the capacity fees charged by the district cover the cost of the increased capacity necessary, and as required by law
4. Addition of a 600 foot water line replacement on Hormiga Ln
5. Addition of the replacement of two service vehicles that are over 14 years old and requiring increased maintenance time and expense; lost employee productivity
6. Addition of the installation of the effluent meter vault and related piping at the plant

7. Addition of the purchase of a portable generator to allow for street valve maintenance
8. The addition of \$15,000 for the transition of the district maps to digital format and development of the new digital maps with various boundary layers for decisionmaking.
9. The addition of grant application preparation consulting services in the amount of \$30,000 for the McClure Intake Extension and Service Line Replacement Project.