



## 2019/20 Draft Final Budget Preparation Memorandum

June 19, 2019

### 1 BUDGET OVERVIEW

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#### 1.1 PURPOSE

We are pleased to present to the Board of Directors the final draft 2019/2020 fiscal year budget, which is described in detail in this memorandum. The intent of this document is to describe, in narrative terms, how management is approaching budget preparation, to describe what the budget will and will not contain, changes to be made or expected in operations and administration, capital investments proposed and other matters that will be tied directly to the revenue and expenses that the Board will see in the proposed budget. After Board review, vetting and direction, this memo will become the final budget narrative that supports and explains the budget for the benefit of the Board and public.

This is the second draft budget memorandum for 2019/2020, and will be completed with hyperlinks to the budget sheets following adoption of the final budget.

#### 1.2 TRANSPARENCY

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. Budgets containing every line item to be purchased are not realistic or necessary in our public service environment, where our revenue is very predictable but our expenses can vary widely due to weather, regulations, disasters or critical equipment failure. Therefore, this budget is presented in functional categories in each service, including:

- Salaries, benefits and pension liabilities
- Operating expenses such as equipment, vehicles, system/building maintenance and repair
- Outside (contractual) services
- Other expenses such as utilities, training, certification
- Leases and debt service (loan) payments
- Capital outlay (projects and equipment with a value of over \$5000 and useful life of greater than three years)

To provide a basis of budget understanding, the assumptions, criteria and procedures of budget development are 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.

### **1.3 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 maintenance, state permits or salaries that produced the overrun. This provides the Board with the ability to uphold their fiscal responsibilities; seeking clarification, considering budget amendments and/or evaluating options to increase revenue or reduce expense.

### **1.4 SERVICE LEVELS**

Special districts are truly the most responsive vehicle in which to respond to a community's service provision needs. In some cases, a district is formed to provide a single public service such as water or wastewater, and in others such as GCSD, a district is formed to provide multiple public services, tailored at a level specific to the needs of the customers. Considering these differences, it is important to understand the fact that some of our service levels are fixed by law, and others are at the discretion of the district through its Board of Directors; and considering public input.

#### **1.4.1 Mandatory Service Level Example**

The Local Agency Formation Commission (LAFCO) Resolution that formed GCSD assigns to us the responsibility to provide water and sewer services; which must be delivered in strict compliance with State and Federal Permits, regulations and laws. We are required to comply with these requirements, and if we do not, the state will levy steep fines, penalties and expensive/unplanned improvement requirements. Complaining that the District or its customers cannot comply with OSHA laws, Safe Drinking Water or Clean Water Act requirements because we do not have enough money; will not relieve the District of the fines or enforcement.

The District Board and management have NO flexibility when it comes to providing service in compliance with these requirements, no matter how costly. Therefore, management will budget for compliance and if we are not qualified to determine what is necessary/best for compliance, the expertise of professional consultants and their cost will be included and identified in the budget proposal.

#### **1.4.2 Discretionary Service Level Example**

Fire and Park services are examples where we have the discretion to set service levels. With regard to parks, if we own and operate them, certain less onerous mandatory requirements apply, including:

- To reduce liability, we must maintain for public safety. We can, and will be sued for a dangerous or defective condition of public property
- We must comply with all handicapped accessibility requirements for facilities and buildings
- Playgrounds must be constructed in compliance with the Handbook for Public Playground Safety
- We must comply with public contracting requirements such as payment of prevailing wage; CEQA and non-discrimination requirements

However, if we have no money available to replace a leaky roof, replace a broken refrigerator, irrigate or mow the lawn, stripe the parking lot, or keep the skate park open when the concrete fails; there is no requirement in law to provide for these. Therefore, if there is no money, the District can budget \$0 for water and \$0 for power, close and lock buildings and stop mowing the lawn.

In the example above, the District does have the ability to propose the adoption of a funding measure, such as a property assessment or special tax, that if approved by the voters can be used to maintain services at a current level or improve them to the level desired by the community.

## 1.5 GENERAL BUDGET DEFINITIONS

### 1.5.1 Administrative Expenses

All administrative, or overhead expenses are presented in their own category for transparency and evaluation purposes. The salary and benefits of office staff, office expense, insurance, board expenses and other basic costs incurred to administer the affairs of the District, regardless of the services provided, are accounted for in the administrative expense. As a rule in the Community Services District world, this expense is then distributed to the various services provided, at an allocation percentage based on the level of administrative effort that goes into delivering the respective service.

Continuing from the 2018/19 budget, it is recommended that GCSD allocate the administrative expenses to each of its service funds based on an appropriate percentage of benefit derived. It must be understood that prior to 2018/19, we distributed the administrative expense only to the water, sewer and fire services, with nothing charged to park. There is most obviously a benefit derived by the park service by sharing office administrative expenses with other services. Any of our services, if provided by a separate special district, would require a separate office, staff and Board expenses that would certainly exceed the shared admin expenses of a CSD.

### 1.5.2 Revenue

#### 1.5.2.1 *Taxes and Assessments*

- **Property Taxes – Current Secured:** A portion of the ad valorem (value based) property taxes that are levied, collected and appropriated by the County to the District for all secured property within the Groveland Community Services District service area. This tax is secured by a lien on real property and are subject to 1% of market value limitations of Proposition 13. The Board of Directors has the discretion to allocate ad valorem property taxes to any and all legitimate expenses of the District. Historically, the District has allocated all ad valorem taxes received to the Fire and Park services.
- **Property Taxes – Current Unsecured:** A portion of the ad valorem (value based) property taxes that are levied, collected and appropriated by the County to the District for all unsecured property with the District's service area. The term "unsecured" simply refers to property that is not secured real estate such as a house or parcel of land which is currently owned. In general, unsecured property tax is either for business personal property (office equipment, owned or leased), boats, berths, or possessory interest for use of a space.
- **Assessments** (In our case also referred to as Bonds): A levy or charge upon real property by an agency for a special benefit conferred upon the real property that is subject to Proposition 218.

#### **1.5.2.2 Service Charges**

Property related charges imposed for a property related service. Article XIII D of the California constitution determined that water and wastewater are property related services subject to the ratemaking procedures of Proposition 218 (1996).

- **Water Service Charge:** Fees collected to recover the cost of providing water service and potable water to District customers. The fixed charge or “base rate” is levied on a monthly basis to keep the water system in a “ready to serve” condition.
- **Wastewater Service Charge:** Fees collected to recover the cost of wastewater collection, treatment and disposal services to District customers. The fixed charge or “base rate” is levied on a monthly basis to keep the wastewater system in a “ready to serve” condition.
- **Variable Rates:** the dollar amount charged per unit of water consumed and/or sewage discharged based on meter readings

#### **1.5.2.3 Fees**

Miscellaneous set fees such as late fees, door notice fees, hydrant meter rental, hookup fees, reconnection fees, property transfer fees and returned check fees. All fees are charged related to actions or non-actions specific to a customer’s water or wastewater account, for facility rentals and other administrative processes. Government Code § 61115(a)(1) provides that the District Board of Directors can, by ordinance or resolution, establish fees for the services and facilities that the District provides. All such fees must be reasonably related to the service provided. The fees cannot be used as a source of “general revenue” for the District. The District has adopted a Miscellaneous Fee Schedule which contains the various charges for extra services provided by the District.

Note – In the past, the District actively accepted wastewater discharged from septic haulers for a fee. Unfortunately this septic waste discharged into the system caused significant upset of the wastewater treatment system which jeopardized our ability to meet state requirements consistently. In order to accept septic waste in the future, improvements and reconfiguration of the treatment process is required; the expense of which would likely exceed the potential revenue received from fees.

#### **1.5.2.4 Grants & Donations**

Various grants or donations received for specific purposes or areas. Grants are only included in the budgeted revenue if a grant agreement is in place and the receipt of the grant revenue can be certainly expected within the fiscal year. Grant revenue may be listed as contingent if there is a reasonable expectation that the money will be received to offset a particular expense.

#### **1.5.2.5 Other Revenue**

- **Strike Team Revenue:** Income received from the State of California and Federal Government to reimburse the District for expenses related to responding to a request for mutual aid to fight wildfire (Strike Team). This is applicable to the fire fund only.
- **Lease Revenue:** Income received from the rental of District property, equipment or buildings.
- **Cell Tower Rental:** Income received from the rental of District property to telecommunications companies for the location of cellular and data transmission facilities.
- **Sale of Assets:** Monies received from the sale of buildings, vehicles, land or equipment owned by the District.
- **Interest Revenue:** Interest earned on investment of District funds, such as Money Market accounts or LAIF.

### 1.5.3 General Expenses

- **Salaries:** Costs associated with compensation paid to employees and interns of the District including regular pay, overtime, standby, vacation, sick, strike team, cell phone stipend, uniform allowance, and intern stipends.
- **Benefits:** Costs associated with all fringe benefits and payroll related expenses for District employees. Costs include payroll taxes, retirement contributions, health/vision/dental insurance premiums, and workers compensation insurance premiums.
- **OPEB/Pension Liability:** Other Post Employment Benefits (OPEB) reflects the cost of pre-funding medical benefit costs which will be provided to current vested employees (hired prior to 2013) upon retirement. Employees hired after 2016 do not receive District payment of medical insurance in retirement. Those hired between 2013 and 2016 receive retiree medical insurance based on a vesting schedule (years of service). This annual payment, which is calculated based on an actuarial valuation, is deposited into a specific (interest earning) trust fund intended to reduce and control future retiree medical insurance costs. Pension liability is the amount of estimated payments to fund the deficit in the District's retirement account with CalPERS.
- **Retiree Medical:** The direct cost of medical insurance premiums for existing retired employees that receive this benefit in which they are vested
- **Equip, Auto, Maint, & Repairs:** This category of costs includes maintenance and repair of equipment, facilities, and vehicles; fuel; safety supplies and equipment; new equipment purchases with a purchase price of less than \$5,000 per item; personal protective equipment; landscaping and janitorial services.
- **Outside Services:** Costs from professional outside consultants/service providers including public outreach, human resources, auditing, legal, engineering, medical, janitorial, lab services, and IT service providers.
- **Other:** Other costs consist of state permits, utilities, phone and communication expenses, property and liability insurance, training, conferences, travel, certifications, public education materials, software licenses and maintenance.
- **Cost of Water -** In the water fund, the purchase of water from SFPUC and tunnel outage related costs.
- **Debt Service:** The amount of principal and interest due during the fiscal year on debt incurred for previous capital improvement purchases/projects.
- **Capital Outlay:** Assets or improvements with a cost of \$2,500 or more and a useful life that is longer than one year.

### 1.5.4 Reserves

Fund balances/net assets set aside to meet known and estimated future obligations and to ensure available cash for normal operations. Reserves are typically established based on improvements identified in adopted capital improvement plans and master plans. Reserves are shown as both an expense (where a certain amount of cash is set aside) and a revenue (Transfer in) to fund a project or purpose for which they are set aside.

## 1.6 2018/19 BUDGET PERFORMANCE AND ACCOMPLISHMENTS

All funds of the District performed very well, with revenue exceeding expenses in the water and sewer funds, and lower than budgeted fund balance transfers (expenses over revenue) in Fire and Park

services. The 2018/19 total revenue and expenses through approximately 11 months of the year for each fund is summarized below:

| <b>WATER</b>                  | <b>AMOUNT</b> | <b>SEWER</b>                  | <b>AMOUNT</b> |
|-------------------------------|---------------|-------------------------------|---------------|
| Revenue                       | \$3,075,310   | Revenue                       | \$2,006,748   |
| Expenses                      | \$2,588,611   | Expenses                      | \$1,754,237   |
| Revenue Over (Under) Expenses | \$486,699     | Revenue Over (Under) Expenses | \$252,237     |

| <b>FIRE</b>                   | <b>AMOUNT</b> | <b>PARK</b>                   | <b>AMOUNT</b> |
|-------------------------------|---------------|-------------------------------|---------------|
| Revenue                       | \$1,085,935   | Revenue                       | \$285,832     |
| Expenses                      | \$1,236,351   | Expenses                      | \$334,868     |
| Revenue Over (Under) Expenses | (\$199,451)   | Revenue Over (Under) Expenses | (\$49,036)    |

For the first time in many years, the District has completed hundreds of thousands of dollars of building, facilities and infrastructure improvement and restoration projects; funded with dollars generated from customer rates, state grants and reserves. The capital projects completed are listed below and financial detail included in the Capital Outlay Budget sheet attached to this memo:

1. Flood damage restoration projects (March 22, 2018 flood)
  - Ferretti Rd: Water and sewer line replacement
  - Lift Station 7: Block wall, road shoulder and asphalt repair
  - Lift Station 16: Grading, fencing replacement, lighting repair and electrical inspection
  - Administration parking lot: asphalt repair, road shoulder repair
  - Maintenance yard: dirt removal from percolation ponds, behind Maintenance shop and Sewer Treatment Plant generator building; culvert replacement
  - Mary Laveroni Park restoration project
2. Truck #9 replacement
3. Second Garrote water treatment plant door repair/replacements
4. Maintenance building repairs: siding, paint, floor Joist and top plate repair
5. District lighting: Admin parking lot and Fire house parking lot
6. Drying bed concrete upgrade (replaced failed asphalt)
7. Big creek Turbine repair (scheduled to be installed June 13,14 2019)
8. Reservoir 1 valve vault replacement (scheduled for June 2019)
9. Flume repair: scheduled this fiscal year but wet month of May pushed start date to July 1, 2019
10. AWS/Tank 2 booster pump skid and Generator install: Test run determined more programming will be required to operate at 100%
11. Metal pile removed (decades of accumulation and clutter). This was included in the contract for the maintenance yard flood restoration, not paid by grant
12. Fire Department Driveway Approach Replacement
13. Purchase of the Self Contained Breathing Air Compressor for the Fire Department

Also within the 2018/19 fiscal year budget, we completed a number of technology enhancements and purchases to increase operating efficiency and productivity, including:

1. Hired a technology consultant who performed updates/upgrades to all computers, developed a technology asset list, implemented security and virus protection equipment and procedures, and created a computer replacement plan and training
2. Hired a technology consultant who updated the District Supervisory Control and Data Acquisition (SCADA) equipment and related servers including appropriately licensed software. The SCADA system monitors and controls all functions of the treatment plants, pump stations and sewer lift stations.
3. Hired a GIS consulting and hosting firm to digitally display the District boundaries, parcels, and infrastructure; and to be used to prepare updated maps both paper and digital
4. Purchased and populated an asset management software program to document maintenance on all equipment and infrastructure, document equipment age, condition and replacement needs
5. Developed draft 5 year capital improvement plans for water and sewer
6. Developed an equipment and facility replacement schedule for the fire department

## **1.7 BOARD DIRECTION RELATED TO BUDGET 2019/2020 DEVELOPMENT**

The Board of Directors held a budget workshop on May 30, 2019 and discussed the budget at its regular meeting of June 11, 2019; taking public input on both occasions. Staff presented the following Board Goals and budget objectives which has served as the guiding principles in this final draft budget:

1. **Support Staff** by providing a work environment that values, supports and improves employee recruitment, development, retention and cross-training of excellent employees
  - a. Include the revised salary structure and scale approved in the Compensation Report for immediate implementation
  - b. Maintain employee benefits at current levels
  - c. Identify additional no, and low cost benefits to continue improving efficiency and the work environment
  - d. Complete the (consultant developed) revised classification descriptions to improve efficiency, and clarify employee advancement opportunities
  - e. Implement the Operations Supervisor position to increase operations employee productivity, efficiency, safety, leadership development, training potential and accountability
  - f. Increase training for leadership, management, supervision and technical skills
  - g. Utilize professional consulting services to ensure appropriate and supportive human resources and associated legal principles are consistently followed
2. **Board Goal Related to Policies** – Propose new and amended policies and updated Ordinances that support accomplishment of management objectives and provide the framework for efficient operations
  - a. Engage the engineering, financial and legal professional services necessary to develop comprehensive and legally compliant ordinance updates, that are grounded in solid engineering and financial principles
  - b. Engage engineering consulting services to develop Capital Improvement Plans (CIP)
3. **Board Goal to Support Facilities and Operations** - Plan, fund and implement improvements to the treatment plants and systems that integrate technology and provide for industry standard, efficient maintenance and operations

- a. Fund operations at a level to ensure:
  - i. Regulatory compliance
  - ii. Employee and public safety
  - iii. Improved efficiency, productivity and accountability
  - iv. Identification and addressing potential impacts of the PG&E Public Safety Power Shutdowns (PSPS)
- b. Complete integrated water and sewer master plans completed by professional consultants
  - i. Complete water and sewer impact/connection/capacity fee study
  - ii. Complete an evaluation of more efficient sludge handling practices
- c. Complete Fire Master Plan update and Development Impact Study with Citygate Associates
  - i. Engage consultant to complete a fire services impact fee study
- d. Continue the engineering (and management) effort to secure state grant/loan funding agreements
- e. Improve and maintain information technology and SCADA systems to maximize data and system safety, productivity and efficiency
- f. Invest in engineering, consulting and data services to continue the digitization and update of district maps
- g. Engage the engineering services to complete and service a USDA grant/loan application for projects approved in May 2019
- h. Replace a faulty district service vehicle with an appropriately designed service truck, outfitted with appropriate tools
- i. Continue completion of necessary repairs and upgrades to preserve the life of existing buildings and reduce long term costs
  - i. Operations building(s) roof, windows, siding and paint
  - ii. Maintenance building windows and rain gutter
  - iii. Admin building roof repairs, paint and rear railing replacement
- j. Wastewater plant road restoration and drainage improvements
- k. Administrative office parking lot restoration (Phase 1 of 3-year, \$400,000 project)
- l. Fire Department bay lighting replacement for efficiency, rain gutter replacement and paint
- m. Commercial laundry equipment or uniform service to provide clean uniforms for those soiled by oil, grease, wastewater and during construction
- n. Pump, valve and other equipment replacements
- o. Plan, design and construct priority capital improvement projects in water and sewer
- p. Plan, design and potentially begin construction on (80%) grant funded park rehabilitations/improvements (Total available Per Capita Grant of \$200,000). The final projects to be completed have not yet been determined, but the following have been identified as necessary by staff to keep existing facilities safe, operational and to increase efficiency. The estimated cost of the renovation/replacement work listed exceeds the amount of state grant available (\$200,000) by more than triple. The Board will need to set priorities this summer and fall:
  - i. Leon Rose Baseball Field Renovation (infield, turf, electrical, scoreboard, parking lot)
  - ii. Mary Laveroni Park:
    - 1. Irrigation System replacement to water saving and using smart controls
    - 2. Turf replacement

3. Parking lot renovation
    4. Lower park security and safety lighting (potentially funded with county lighting district funds)
    5. Replacement of destroyed and missing BBQ pits and picnic table
    6. Replacement of plumbing and fixtures in upper bathroom
    7. Skate park improvements including:
      - a. Concrete overlay – existing concrete is failing
      - b. Recoating of ramp equipment
  - q. Support for GRACE park project planning, outreach, meetings and grant applications
- 4. Board Goal: Support Customer Relations and Outreach** – Improve the image of the District and treatment of employees through a variety of actions that raise public awareness of the good work of the District
- a. Invest in consulting services to continue to implement the adopted communications plan, and improve/increase the District's information output, community input, engagement and education, continue and improve social media presence and effectiveness in improving customer service and relations
  - b. Invest in customer service and outreach training
- 5. Board Goals Related to District Finances** – Ensure that the District has adequate financial plans to invest in long term infrastructure improvements, achieve regulatory compliance, protect public and employee health and safety, and maintain service cost equity among the generations of our customers.
- a. Engage a consultant to complete a new water rate study
  - b. Engage a consultant to identify the appropriate fire service funding mechanism, and to establish the revenue measure application methodology in the event funding from a countywide fire tax measure is inadequate to support fire services long term
  - c. Engage consulting services if needed to develop CIP funding and financing plans and strategies, to establish designated reserve plans and policies, and updated connection fees for all services
- 6. Board Goal Related to District Administration** – Provide the structure, process and staffing for competent, transparent and accountable governance and administration of all District services.
- a. Invest in employee training in records management, board secretarial functions and other related programs, such as CSDA annual conference
  - b. Invest in Board training in leadership, governance and industry conference attendance

## 1.8 2019/2020 BUDGET HIGHLIGHTS:

This section of the Budget Memorandum is intended to provide the reader an overview, or “bottom line” of what has changed from prior years, and where to focus in the budget for major projects or purchases. Additional detail is provided later in the report supporting the budget highlights, which include:

- Administrative expenses of \$1,537,182 which reflects the baseline cost of staffing the office, General Manager, office equipment, Board of Directors training and stipends, operating and maintaining the District office and related facilities. The current proposed budget allocates the majority of administrative expenses based on customer count in water and sewer, and based on the estimated amount of administrative staff effort for fire and park, as follows:
  - Water – 56%
  - Sewer – 38%
  - Fire – 1%

- Park – 5%
- The Administrative Services Technician position added in the current budget, is funded in the proposed budget
- Operations Supervisor field position reestablished to lead and participate in increased system maintenance
- Median salary from the total compensation report of 2019 is included, implemented in year 1
- Water fund revenue covers operating expense by \$130,974
- Water capital improvements of \$458,708 funded by current rates and fund balance (reserve)
- Water fund reserve deposit of \$47,771 from fund balance
- Water and sewer master plan updates at a cost of \$60,000 each
- Sewer revenue covers operating expenses by \$1,104,354
- Sewer capital improvements and equipment purchases in the amount of up to \$1,123,581
- Sewer reserve deposit of \$100,000
- Fire service funding shortfall of \$487,419 if Schedule A and Amador contracts billed at Calfire estimated budget
- Park infrastructure renovation and improvement project of \$240,000 funded by a \$200,000 state grant
- Park service fund shortfall of \$112,198

## **2 2019/20 BUDGET DISCUSSION**

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### **2.1 BUDGET DEVELOPMENT PROCESS**

The District's budget is developed for the ensuing fiscal year, initially by office and operations management staff under the direction of the General Manager. Expenses and revenue through the first six to eight months of the year are closely analyzed and then projected through the end of the year. To understand financial trends and identify potential budgeting inaccuracies, the expenses and revenue are then compared to previous years' budgets and actual fiscal year-end figures. These identified trends, as well as areas where we had in previous years budgeted too high or low, are taken into consideration in development of the next fiscal year's budget. Further, budget criteria are identified and assumptions made about known changes in expenses and revenue for the next year; which are then forecasted to further guide budget development.

The District budget proposal is very simply constructed and presented, due to the relatively stable and very limiting nature of our funding and limited expense fluctuations; therefore, this narrative is very important in understanding the financial condition of the District. Following are some basic assumptions and criteria used in our budget development:

### **2.2 SERVICES CRITERIA**

Driven by the Board 2019 adopted/amended Management Objectives, detailed in the following section are specific management directives issued to staff to guide their overall approach to budget development, and setting certain minimum and maximum goals:

#### **2.2.1 Water/Sewer**

- Customer Service levels will be maintained

- Preventative maintenance of the sewer system will continue in compliance with the adopted SSMP and at industry standards
- Preventative maintenance of the water system will increase over 2018 with the addition of the supervisor position and full implementation of the asset management software
- System repair and capital improvements will continue at 2018 pace
- Water and wastewater quality will be maintained at all times
- Efforts and expenditures will continue to be invested in optimizing water and wastewater treatment processes
- Public Outreach regarding operations will be increased
- SCADA technology will be optimized, and digital asset management implemented
- Compliance is mandatory with state permits and other regulatory and legal requirements
- Employee and public safety is of utmost importance
- Equipment is to be safe, reliable and operable for the intended purpose

#### **2.2.2 Mary Laveroni Park**

- Improvements to park infrastructure will be planned and implemented to stabilize and reduce operating costs without reducing services
- Public safety and park condition is a top priority

#### **2.2.3 Fire**

- Continue the Cal Fire Schedule A and Amador Contracts and to provide the highest level of services possible
- Maintain equipment and facilities in a safe, reliable manner
- Develop an understanding of the impacts of providing emergency response services to new development outside GCSD boundaries

#### **2.2.4 Administration**

- Technology will be safe, maintained and improved
- Public outreach on District management and administration will be increased
- Financial practices will be solid, safe and audits clean
- The Board of Directors will continue to function as a knowledgeable, functional governance team

### **2.3 REVENUE ASSUMPTIONS**

- Grant revenue is budgeted as follows:
  - Water – \$32,228 for the remaining State Water Board planning grant
  - Sewer – \$128,000 for the remaining State Water Board planning grant, \$298,000 in reimbursements from DWR for the Lift Station #16 IRWM project, \$106,500 from Cal OES for the 2018 flume rehabilitation project, \$374,259 from CalOES/FEMA for the 2017 flume restoration project
  - Fire – \$166,300 for the Jones Hill Fire Fuel Break, and \$20,000 from the Sonora Area Foundation for the Breathing Air Compressor Project
  - Park - \$200,000 reimbursement from state Proposition 68, Per Capita Grant Program
- Water Service Charge base rate revenue will increase by 3% (\$74,101), due to the step rate increase approved in May 2019. Interest earnings are expected to increase by \$10,000 due to a

better rate of return on LAIF investments. Connection fee and miscellaneous revenue are also budgeted to increase by \$26,561 due mostly to an increase in new connections (connection fees).

- Customer water consumption will be consistent with the 2018/19 fiscal year, and consumption revenue will increase by 3% due to the step rate increase approved in May 2019
- Wastewater (Sewer) revenue will increase by \$181,432 (15%) over 2018/19 as a result of the step rate increase approved in May 2019. The variable rate revenue is expected to generate an increase of \$74,720 (20%). Connection fee revenue is budgeted to increase by \$30,000 from 2018/19 based on current trends.
- Property tax revenue (normally allocated to Park and Fire Services) is estimated to increase by \$45,433 (4%) due to the increasing values of properties sold and the normal 2% inflation increase levied by the county. Ninety Two percent (\$1,086,768) of the property tax will be allocated to Fire, and 8% (\$94,500) to Park services.
- Lease revenue is expected to increase by \$21,600 for the year due to additional cellular towers being developed on CSD property; allocated 100% to Park

## 2.4 EXPENSE ASSUMPTIONS

- Salary and related benefit expenses applied to all services are increased in accordance with the median salaries contained in the 2019 Compensation Report; a change of \$227,401.
- The Operations Supervisor (field/working supervisor) position is reestablished in the organizational chart and funded for the year, at the median salary level of the Compensation Report; a change of \$122,673 which includes all salary and benefits costs. This position is responsible to lead all field staff in the operation and maintenance of the water and sewer systems. See the revised Organizational Chart.
- Salary and benefits are budgeted for the General Manager as an employee versus contractor
- Hire consultant for completion of the classification descriptions
- Hire consultant for public outreach and social media management
- Calfire costs will be budgeted in accordance with the 2018 contract, and the actual amount billed to the District will steadily increase to the amount budgeted
- Expenses for materials and supplies are expected to increase slightly due to basic inflation
- Fuel costs will increase by 20% due to price increases and estimated power outages (PSPS)
- Utility expenses for all services will increase based on programmed rate increases; TPPA increasing 8.5%
- Technology expenses for hardware, software and IT services will remain consistent with 2018/19
- Water and Wastewater Master Plan development contract will be awarded in July 2019, with a \$60,000 expense in each the Water and Sewer funds

## 3 CAPITAL IMPROVEMENT PROJECTS

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The most efficient and transparent method of completing capital improvement projects in all services is to budget and complete them in accordance with a long term capital improvement plan (CIP). The CIP will include equipment replacement schedules for the fire department, major building renovations for

all facilities such as roof, siding, window and HVAC replacement, pump and control replacement schedule, and an underground infrastructure replacement schedules for valves, pipes, hydrants manholes, etc. The CIP will be proposed for adoption by the Board, and includes targeted annual expenditure and reserve levels.

In many cases, a CIP includes replacement or upgrade of infrastructure that includes capacity to serve existing, and a certain number of new, additional connections. Replacement pumps, pipelines, valves and controls are examples where future capacity needs are taken into consideration. Considering this, a portion of the CIP expenses are rightfully paid/funded by new/future connections to the system, in the form of a connection/capacity fee.

The District Engineer and District staff are currently developing the CIP for water and sewer projects. A certified building inspector will by September 2019 have prepared a building/facility condition and improvement needs report which will feed into the final CIP. District staff is also in the process of populating our new Asset Management software, containing every piece of equipment, tool and rolling stock requiring maintenance. Each of these assets will be assigned a condition and estimated replacement year and cost. The Fire Department Equipment Replacement Schedule has been completed. A park facilities CIP will be developed in fall 2019, with partial funding provided by Prop 68 for the highest priority improvements. The final CIP will be presented to the Board for adoption.

To tie it all together, the Water and Sewer Master Plans scheduled for completion in mid 2020 will include the adopted CIP, and evaluate the need, options and cost for major water/sewer improvement projects intended to optimize our treatment processes, increase system reliability, and reduce long term costs. The Master Plans will also lay out plans for expansion of the systems in the future to accommodate community growth; and will establish a supporting CIP total funding amount and recommended (future) connection/capacity fee structure.

Detailed cost of the planned capital projects and a brief description of each is included in the proposed final budget Capital Outlay sheet.

## 4 BUDGET IMPLICATIONS

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The budget document provides information about the revenue we expect to collect and what expenditures are planned, why and what they will cost. Many times when we plan a balanced budget, all appears to be in order financially. What the budget assumptions, criteria and figures may not reveal is the answer to questions such as:

1. With the revenue available, are we able to maintain our water and sewer system to industry standards; and if not, what are the short and long term implications in terms of cost, regulatory compliance and service reliability?
  - a. Barring any unforeseen major system malfunctions, this budget as proposed provides adequate funding in terms of personnel and supplies for regulatory compliance in water and wastewater services.
  - b. Due to operating in a reactive mode for many years to save costs, our system reliability and ability to efficiently operate have become compromised. Our inventory of major components such as critical pumps and motors is virtually non-existent. As we are

always focusing on sewer maintenance, we currently do not have the staff to perform standard maintenance on the water system such as street, control and pressure regulating valve operation and maintenance, fire hydrant flushing and servicing. Lack of maintenance will result in premature failure and the need for replacement of system components. The reliability of the system will eventually wane, and the cost of operation will increase in both premature replacements and emergency response. Completion of planned system replacement projects coupled with the purchase of updated technology, system maps, tools and equipment will free up time to allow for increased maintenance without adding staff.

- c. In addition, we do not have the appropriate equipment to fully clean and flush portions of the sewer collection system, due to its high expense and infrequent use. Lack of sewer cleaning can result in sewer overflows. Investment in correct equipment or contracting regularly for the cleaning work in difficult locations should be funded.
- 2. Are we able budget to ensure that there will be no sanitary sewer overflows (SSO)? If not, what needs to happen to be able to do so?
  - a. It is simply not possible with our sewer system and its defects and mechanical nature to budget for zero sewer overflows. We cannot inspect all segments of the system enough to find backups before they spill. We cannot eliminate grease, which is a major contributor to the SSO, but we can increase outreach to reduce it. Completing the sewer improvements being planned is the best, most cost-effective means to reduce SSO.
- 3. Are we spending to simply stay afloat and keep the rates as reasonable as we can today, or are we investing toward long term goals and efficiency?
  - a. This budget year, we are spending to stay afloat, and investing in the studies needed to document the long-term improvements and replacements needed, so we can plan them out financially for the long term.
- 4. Are we planning in our budgeting for the long-term needs and financial health of the Park and Fire services?
  - a. This year, we are identifying the true cost of operating the park service, so that we can determine the actual amount of revenue needed in the future to sustain park services; beginning this year.
  - b. The true cost of operating the fire service through the contracts with Calfire are shown in the budget by a large negative, expense over revenue. We have been lucky for the last couple years to not have been charged for the Amador contract, and when we are for two years in a row, our budget and reserves for fire may be depleted, even without major equipment purchases. We will be developing an equipment replacement and CIP for fire services this year; which will provide the data needed to determine the long-term revenue needs for fire.
  - c. Staff recommends that the Board authorize the implementation of a Fire Cost Recovery Fee and begin the process of evaluating the need for a special tax or parcel assessment funding measure to ensure the long term financial sustainability of both the Park and Fire Services.