

Groveland Community Services District

2018/19 Draft Budget Preparation Memorandum

May 25, 2018

1 BUDGET OVERVIEW

1.1 PURPOSE

We are pleased to present to the Board of Directors this draft 2018/19 fiscal year budget preparation 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 and will be modified and completed as the final budget is considered by the Board.

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. In preparation of this 2018/19 budget, we have revised our practices to make it easier to comprehend the budget, which makes it much simpler for the Board and public to track planned versus actual expenses and revenue. This revised budget process also allows for a better understanding of administrative (overhead) expenses and how they are applied to the services provided.

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 GCSO, 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 community through its district Board of Directors.

1.4.1 Mandatory Service Level Example

The Local Agency Formation Commission (LAFCO) Resolution that formed GCSO 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 improvement requirements. Complaining that the District or its customers cannot comply with OSHA laws or Clean Water 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, water 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 2018/19 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 \$1,447,523 which reflects the baseline cost of staffing the office, supporting the Board of Directors, operating and maintaining the District office and related facilities. These expenses were previously contained directly within the budgets of each of the individual services. The current proposed budget allocates administrative expense based on appropriate percentages
- Water revenue of \$2,427,566 and expenses of \$2,424,994; a balanced budget including capital projects.
- Water capital improvement projects and equipment purchases totaling \$178,400
- Water master plan update at a cost of \$60,000
- Sewer revenue of \$1,658,210, which anticipates a 17% rate increase effective in August 2018
- Sewer capital improvements and equipment purchases in the amount of \$254,600
- Sewer master plan update at a cost of \$60,000
- Total property tax revenue of \$1,135,835, allocated at \$1,044,969 to fire and \$90,866 to park
- Fire expenses totaling \$1,493,784 which includes \$30,000 for Station 78 driveway repairs and \$45,000 of a new SCBA filling station.
- Fire expenses exceed revenue by \$427,815, which will be budgeted to be drawn from unrestricted cash reserves
- Cell tower lease revenue increase of \$9,312
- Park service pays \$62,494 of administrative costs to reflect the actual amount of benefit received
- Park improvements planned include \$65,000 for an engineered concrete slab overlay for the skate park and \$60,000 for repair, asphalt overlay and micro surfacing of the upper parking lot
- Park service funding shortfall of \$213,320 proposed to be funded by a transfer from unrestricted reserves

2 2018/19 BUDGET DISCUSSION

2.1 GENERAL BUDGET DEFINITIONS

2.1.1 Administrative Expenses

With the 2018/19 fiscal year budget, we have moved all administrative, or overhead expenses into 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.

With the 2018/19 budget, it is recommended that GCSD begin allocating the administrative expenses to each of its service funds based on an appropriate percentage of benefit derived. It must be understood that we have historically 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.

2.1.2 Revenue

2.1.2.1 *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.

2.1.2.2 *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.

- **Water Service Charge:** Fees collected to recover the cost of providing water service to District customers.
- **Wastewater Service Charge:** Fees collected to recover the cost of wastewater collection services to District customers.

2.1.2.3 *Fees*

Miscellaneous set fees such as late fees, door notice fees, 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.

2.1.2.4 Grants & Donations

Various grants or donations received for specific purposes or areas.

2.1.2.5 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.
- **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.

2.1.3 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 upon retirement. Employees hired after 2016 do not receive District payment of medical insurance in retirement. This annual payment is deposited into a specific 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; 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 outside consultants/service providers including auditing, legal, engineering, medical, janitorial, lab services, and IT service providers.
- **Other:** Other costs consist of utilities, phone and communication expenses, property and liability insurance, training, conferences, travel, certifications, public education, software licenses and maintenance. In the water fund, other costs include the cost of wholesale water.
- **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 \$5,000 or more and a useful life that is longer than one year.

2.1.4 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.

2.2 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:

2.3 SERVICES CRITERIA

Supported by the recently adopted Management Objectives, detailed in this section are specific management directives issued to staff to guide their overall approach to budget development, and setting certain minimum and maximum goals:

2.3.1 Water/Sewer

- Customer Service levels will not be reduced
- Water and wastewater quality will be maintained at current levels
- Public Outreach will be increased
- Compliance is mandatory with state permits and other regulatory and legal requirements
- Employee and public safety is of utmost importance and regulatory compliance is mandatory
- System maintenance efforts will increase
- Equipment is to be safe, reliable and operable for the intended purpose

2.3.2 Mary Laveroni Park

- Park grounds will be restored to pre-flood conditions
- Park buildings will be restored to pre-flood conditions if funding is made available
- Public safety is a top priority

2.3.3 Fire

- Continue to provide the highest level of services possible
- Maintain safe, reliable equipment and facilities

2.3.4 Administration

- Technology will be maintained and improved
- Public outreach will be increased
- Financial practices will be solid, safe and audits clean
- The Board of Directors will be developed into a knowledgeable, function team

2.4 REVENUE ASSUMPTIONS

- Water Service Charge base rate revenue will increase by 5%, due to the step rate increase approved in April 2018
- Customer water consumption will be consistent with the 2017/18 fiscal year, and consumption revenue will increase by 1%. due to the step rate increase approved in April 2018
- Wastewater (Sewer) revenue will increase by 17% as a result of the proposed rate increase expected to be in effect by August 2018
- Property tax revenue is estimated to increase by 4% due to the increasing values of properties sold and the normal 2% inflation increase levied by the county
- Lease revenue is expected to increase by \$9,312 due to additional cellular towers being developed on CSD property

2.5 EXPENSE ASSUMPTIONS

- Staff headcount will remain the same as budgeted in 2017/18
- Salary expenses will decrease by an average of 8.6% due to the District not having a General Manager as an employee
- Benefit costs are estimated based on known or expected rates for the upcoming fiscal year, and are estimated to decrease by 6.9% due to the District not paying benefits for a General Manager
- Contract General Manager services not to exceed \$185,000
- To develop and solidify our employee attraction and retention strategy, a classification and compensation study will be completed by an external human resources firm familiar with our industry, at an estimated cost of \$25,000
- 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 due to basic inflation
- Chemical costs will increase by 3% to 5%
- Utility expenses for all services will increase based on programmed rate increases
- Technology expenses for hardware, software and IT services will increase in an attempt to bring our systems up to date and implement a replacement and update schedule
- Integrated Water and Wastewater Master Plans will be developed at a cost of approximately \$200,000 over two fiscal years, updating the plans last completed in 2001

3 CAPITAL IMPROVEMENT PROJECTS

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). This can include equipment replacement schedules for the fire department, major building renovations for all facilities such as roof, window and HVAC replacement, and an underground infrastructure replacement schedules for valves, pipes, hydrants manholes, etc. The CIP is normally adopted by the Board, and includes targeted annual expenditure and reserve levels. We currently have no adopted CIP in any service, and propose to develop them for water and sewer services this year using an engineering consulting firm due to their technical nature; and for fire and park internally using Calfire resources and District staff.

Without CIPs, the establishment of priority projects and purchases becomes an annual exercise of need; budget to fix what we know is broken. Below are listed the projects and major purchases planned for 2018/19:

3.1 WATER

- Water pump replacements - \$30,000. We currently have no pumps in inventory for replacement and failures can result in long term water outages. Our water pumps must be replaced for system reliability.
- Operations and treatment plant building repairs (siding, roofing, gutters, structure, paint) - \$68,000. We currently have much animal damage, rot in wall members, trusses and eaves, failed roofs, and failed siding in buildings at the operations center and water treatment plants.
- General water distribution system improvements (electrical upgrades, technology upgrades, control valves, street valves, fire hydrant replacements)- \$60,000
- Truck #9 replacement - \$20,400. Replaces a truck whose maintenance costs are/will exceed its value. \$9,600 of the cost of the truck will be paid by the sewer fund.

3.2 SEWER

- Replace valves at the wastewater treatment plant - \$20,000. These valves are critical to the system operation and are failed or failing.
- Lift Station 2 Pump system upgrades and recoating of the concrete barrel sections - \$100,000. The concrete inside the lift station is rough and deteriorating due to corrosion caused by hydrogen sulfide gas (sewer gasses); which results in solids buildup and eventual system plugging. A resurfacing compound is installed inside the lift station to provide a smooth surface and protect from further erosion. The pump mounting system and electrical must also be upgraded for easy pump maintenance and replacement.
- Wastewater pump replacements - \$45,000. Replacement pumps will be purchased to improve efficiency and reliability; provide pump inventory
- Building repairs - \$32,000. Buildings at the wastewater plant need replacement doors, roofs, and siding
- Road repairs and maintenance - \$48,000. It is possible that this expense or a portion thereof will be funded by CDAA grants, but this project involves improvement to onsite roads and related drainage systems
- Truck #9 replacement

3.3 FIRE

- Driveway repairs - \$30,000. A portion of the driveway at the fire station has failed, indicating substructure problems and lack of maintenance. This project involves removal and replacement of the asphalt surfacing, and remediation of any identified substructure problems
- Self Contained Breathing Apparatus (SCBA) filling station purchase – \$45,000. The breathing air bottles worn by firefighters into a smoke filled structure must be recharged with fresh air when exhausted. Currently bottles are transported to other locations, such as Columbia College for

filling. In a remote location such as Groveland, it is highly desirable to have available the equipment to refill bottles. We will seek grant funds prior to the purchase with District funds.

3.4 PARK

- Skate Park (Concrete) Overlay - \$65,000. The concrete slab that supports the skate park ramps was constructed by volunteers. Unfortunately, the concrete is spalling and raveling causing large, sporadic areas of rough surface, divots and other imperfections that can cause trips and falls, resulting in personal injury and potential liability for the District. The failures are in locations throughout the skate park, so traditional sawcut, remove and replace methods are not cost effective. We have attempted several times to use specialized filler materials to level the concrete surfaces; and this product too has failed. The ultimate long term solution is the installation of an engineered concrete cap layer over the entire surface of the skate park.
- Upper parking lot maintenance - \$60,000. No major maintenance has ever been performed on the park parking lot and we are seeing much cracking, spalling and weathering of the asphalt surface, allowing water to penetrate which will ultimately result in failure and the need for replacement. Pavement maintenance prior to the beginning of failure of the asphalt can reduce costs by 10 times. This project involves removal and replacement of failed asphalt, micro-surfacing, asphalt overlay and restriping.

3.5 ADMINISTRATIVE OFFICE

- Driveway and parking lot maintenance - \$120,000. No major maintenance has ever been performed on the office parking lot or driveway and we are seeing significant cracking, spalling, rodent holes, and weathering of the asphalt surface, allowing water to penetrate which will ultimately result in failure and the need for replacement. This project involves removal and replacement of failed asphalt, micro-surfacing, asphalt overlay and restriping from Ferretti Road to and including both parking lots, and the driveway to the operations building.

4 BUDGET IMPLICATIONS

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 responding to crisis, we currently do not have the staff to perform standard maintenance 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.