

Date: July 20, 2011

To: Board of Directors

This is the Final FY 2011-12 BUDGET

From: Mike Chapman – GM; Lori Mayo – Finance Assistant

Subject: FY 2011-12 Budget & Management's Discussion and Analysis (Statement of Assumption)

Welcome to the FY 2011-12 budget. A budget is a planned target. It represents management’s best guess as to what the future will bring, based on past historical data and current known facts. Besides numbers, they are policy statements. Budgets determine what will be spent, what will be saved, part objective, part subjective, an overall roadmap to the future. In essence, budgets weave dollars through a policy statement.

Overview

Due to a primary litigation matter (Roseman) the District entered a two-phased budget.

- In Phase I the water base rate increased by an amount of \$4.15 for operations [from \$36.14 to \$40.29 (11%)]; this Phase I budget also kept sewer base rates to remain the same at \$53.00 (0%).
- Phase II includes an additional \$2.48 to the water base rate due to the \$265,000.00 loan received from Savings Bank of Mendocino County to help offset litigation. As such, Phase II looks as follows:

\$36.14	Base	§ FY 2010-11	
<u>4.15</u>	Water operations (Phase I)		[Note: Phase I represents 11% increase from Base FY 2010-11 of \$36.14]
\$40.29	Subtotal Phase I		
<u>2.48</u>	Loan to offset litigation (Phase II)		
\$42.77	FY 2011-12 Water Base Rate [Note: Final represents 18% increase from Base FY 2010-11 of \$36.14]		

§ [Note that last year FY 2010–11 we did not have a water rate increase.]

Accordingly, the final FY 2011-12 Water Base Rate is \$42.77 (and the six water tiers will remain the same charges as last year); the final FY 2011-12 Sewer Base Rate is \$53.00.

Furthermore, the District will delay the Second Clarifier \$1 + million tank project for at least a year.† This delay could, however, increase the project costs \$80k per year. [Caveat: If the current 1982 clarifier tank fails we will be placed in an unpermitted water condition with California Department of Health Services.]

† Water base rates would have increased another \$2.53 per customer per for the \$1,060k clarifier. That is, the overall base rates in FY 2011–12 water would have increased from \$36.14 + \$4.15 + + 2.48 + \$2.53(tank) = \$45.30.

Impacts in General Fund:

Administration	Budget FY 2010-11		Forecast 06/30/2011		Target Request FY 2011-12
Revenue	\$360,100		\$348,200		\$342,000
Expense & Bal Sheet Items	251,500	-	252,000	-	244,300
Fold In Rec, Fran, & Golf	13,000	+	14,600	+	9,800
Transfer Out (debit) Gen Fund to Fire	69,000	db -	69,000	db -	90,400
Transfer Out (debit) Gen Fund to Water	20,000	db -	181,000	db -	0
Transfer Out (debit) Gen Fund to Golf operations	55,600	db -	77,100	db -	7,300
Transfer Out (debit) Gen Fund to Golf to Sewer	26,000	db -	0	db -	0

Net	(216,300)	9,800
FUND BALANCE 6/30/2010 & Subsequent 6/30/2011 Est. Beginning Fund Balance	\$378,395	\$162,095
INCOME STATEMENT Est. 2010-11 (& 2011-12)	(216,300)	9,800
FUND BALANCE 6/30/2011 Est.	\$162,095	
FUND BALANCE 6/30/2012 Est		\$171,895

FY 2010-11 (Forecast)

Under our forecast (see Combine Statement page 1) we began July 1, 2010 with a fund balance of \$378k. Our forecast includes transfers of \$69k to subsidize the Fire Fund and \$77k to subsidize Golf (bridge & survey, etc.). Continuing we anticipate another \$181k transfer from the General Fund to the Water Enterprise Fund to keep it in the black under the face of uncertainty regarding current legal expenses (Roseman case). Our ending fund balance is \$162k.

FY 2011-12 (Target)

We must keep both the General Fund and the Water Enterprise Fund in the black if we going to attempt to acquire a loan from USDA in the future. Next year’s transfers include \$7k to golf and \$90k to fire. The anticipated ending fund balance is \$172k (see Combine Statement page 1).

Rates, Charges & Fees

Rates & Fees General Statement: The approval of rates herein is exempt from the California Environmental Quality Act “CEQA” by reason of Public Resources Code section 21080. This is because the Budget for FY2011-12 adopted concurrently herewith, and other information before the Board of Directors, establishes that the *proposed rates are for the purpose of meeting operating expenses, including employee wage rates, and fringe benefits, purchasing or leasing supplies, equipment or materials, meeting financial reserve needs and requirements, servicing debt and obtaining funds for capital projects necessary to maintain service within existing service areas.*

Water

The final budget represents raising the water base rates from \$36.14 (FY 2010-11) to \$42.77 (FY 2011-12), or \$6.63 (18% increase). The current base rate will apply to all properties connected to the water system. Its purpose is for the operational / capital costs associated with the water department (e.g., wage & benefits, supplies, lab fees, legal, vehicles, fuel, repairs, tank maintenance, utilities, insurance, contracts, state & county charges, debt services, capital, etc.).

The basis upon how the rate was calculated is as follows (see next page):

- Step 1: Total costs to be recovered
- Step 2: Applied tier rate revenue stream
- Step 3: Applied water availability charges (revenue)
- Step 4: Applied other revenue stream
- Step 5: Base Rates

Note: k refers to \$1,000 (± rounded)

1534 SFR *	Brooktrails Operation	Brooktrails Reserve	Total	Per Month
Step 1 (exp)	\$1,117k	\$40k	\$1,157k	\$ 62.85
Step 2 (rev)	– 209k		– 209k	– 11.33
Step 3 (rev)	– 132k		– 132k	– 7.17

Step 4 (rev)	- 29k		- 29k	- 1.58
Step 5 (bal)	= \$ 747k	\$40k	= \$ 787k [◇]	= \$ 42.77
Per Month	\$ 40.60	+ \$ 2.17	= \$ 42.77	Base
Percentage	95%	5%	100%	

Net 1,534 Single Family Residence [State Ceiling: 1,578 SFR] [◇] [Total \$787k ÷ 1,534 ÷ 12 mo. = \$42.77]
Net & Gross are different due to transitional properties sold, rented, 24 new connections March 2010, etc.

Existing Tier Charges will remain the same as last year:

Type	UNIT ALLOWANCE / CUBIC FOOT						UNIT CHARGE / CUBIC FOOT					
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6
All Single Family Residence	690	690	690	690	690	690	\$.016	\$.026	\$.036	\$.046	\$.056	\$.066
<i>Cumulative Gallons →</i>	5,161	10,322	15,484	20,645	25,806	30,967						
Tier Dollars → Cumulative Tier							Tier 1 \$11.04 \$11.04	Tier 2 \$17.94 \$28.98	Tier 3 \$24.84 \$53.82	Tier 4 \$31.74 \$85.56	Tier 5 \$38.64 \$124.20	Tier 6 \$45.54 \$169.74
Commercial Unit	210	210	210	210	210	210	\$.016	\$.026	\$.036	\$.046	\$.056	\$.066
<i>Cumulative Gallons →</i>	1,571	3,142	4,713	6,284	7,855	9,426						
Tier Dollars → Cumulative Tier							\$ 3.36 \$ 3.36	\$10.92 \$14.28	\$22.68 \$36.96	\$38.64 \$75.60	\$ 58.80 \$134.40	\$ 83.16 \$217.56
Construction Service	\$0.076 per cubic foot											

- Base rates are necessary to keep water system primed for peak demand and ready-to-go 365 days a year (e.g., fire protection). Water availability assessments are for long term maintenance and other kinds of improvements; and tiers 1 – 6 cover costs for higher quantity usage (e.g., polymers).

In other related water issues please see the Five-Year Capital Outlook Plan / Large & Small Projects list.

Sewer

Sewer rates will remain the same as last year at \$53.00 per month. Recent forecasts by the City expect the sewer plant to cost approximately \$25 million. The rate will apply to all properties connected to the sewer system (i.e., clay bell cut). The purpose for this rate is for Brooktrails operations / capital costs associated with the City of Willits sewer plant (operations / capital / USDA).

The basis upon the rate is calculated is as follows:

- Step 1: Total costs to be recovered
- Step 2: Applied sewer standby charges (revenue)
- Step 3: Applied other revenue stream
- Step 4: Base Rates

Note: k refers to \$1,000 (± rounded)

1408 EDU [•]	Brooktrails Operations	Brooktrails Reserve	City Operation	Total	Per Month
Step 1 (exp)	\$ 786k	\$30k	\$354k	\$ 1,170k	\$ 69.22
Step 2 (rev)	- 245k			- 245k	- 14.50
Step 3 (rev)	- 29k			- 29k	- 1.72
Step 4 (bal)	= \$ 512k	\$30k	\$354k	= \$ 896k [◇]	= \$53.00

Per Month	\$ 30.27	\$ 1.78	\$ 20.95	= \$ 53.00	Base
Percentage	57%	3%	40%	100%	

∗ Net 1,408 Net Equivalent Dwelling Units (Gross EDU's 1,428) ∗ [\\$896k ÷ 1,408 ÷ 12 mo. = \$53.00]

Further note that all property owners in Brooktrails pay an additional \$50.00 annual sewer stand-by charge (or \$4.17 / mo). Therefore, improved property owners are really paying monthly \$53.00 + \$4.17, or \$57.17 per month. Our payment forecast includes potentially \$354k for the City (40%).

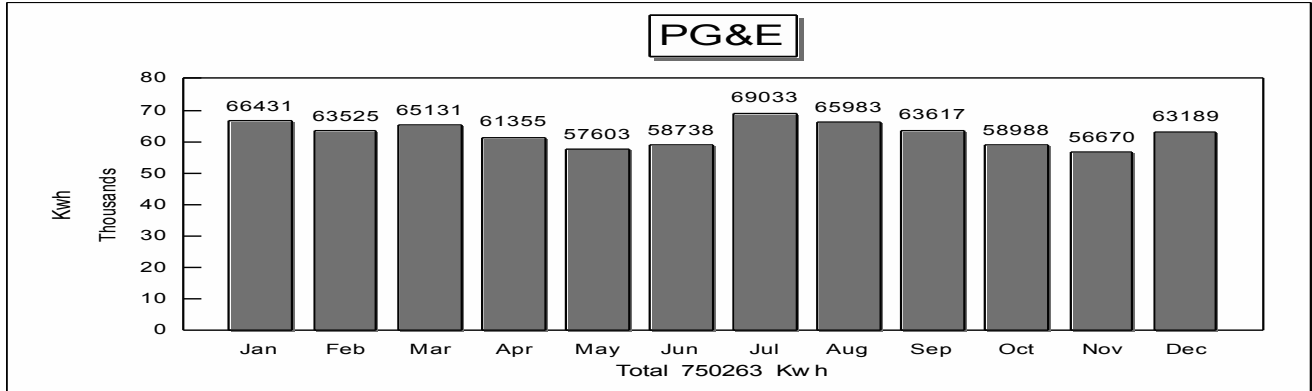
Opening

We prepared this budget in accordance with Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This standard requires governments to depreciate their exhaustible capital assets, including infrastructure. We now depreciate the government funds (Fire, Administration) and enterprise funds (Water, Sewer). The GASB34 format requires the combining of several parts of other financial statements — the Income Statement, the Balance Sheet, and the Statement of Cash Flows — into one statement. Other technicalities include depreciation, which is typically viewed as a non-cash item, but is added into the Income Statement to reflect total expenses, and then backed out to reflect cash flow. Other expenditures from the Balance Sheet are also added into the mix to get a sense of debt structure and reserve purchases.

The second major objective of GASB34 is to provide an "easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions." The budgeting process itself is relatively simple. □ We begin the process by reviewing the audited statements for FY 2009-10 (June 30, 2010) to define our starting fund balances. □ We then turn our attention to the current year's forecast (i.e., FY 2010-11) and make predictions for revenues and expenses, cash flow, and fund balances. □ We then undertake the target year (i.e., request year), and identify the costs necessary to run the District in FY 2011-12, □ followed by a review of the existing revenue to calculate the rates necessary to cover those expected costs.

Definitions.

- **Fund accounting** – Most governments use fund accounting, where costs are segregated according to function. In our case we have four major funds – the General Fund (government), Fire Fund (government), Water Enterprise Fund, and Sewer Enterprise Fund (unrestricted). Within the Water Enterprise Fund we have more specific accounts such as the Water Reserve account. We have a special reserve account within the Sewer Enterprise Fund for the City of Willits USDA payment obligations (restricted under Sewer Agreement № 4). We also have other kinds of funds such as the Water Capital Facility Fund and Sewer Capital Facility Fund; the latter two funds are restricted for capital expenditures.
- **Fringe/tax** – These are additional costs attributed to wages, and include items such as State unemployment tax, employment training tax, Medicare tax, and worker's compensation insurance. Other fringes include the CalPERS retirement program, health insurance, disability, dental insurance, and stay well pay, and GASB 45 OPEB (Other Post Employment Benefits) for post retirement health and welfare benefits required under the law July 1, 2009.
- **Operating costs** – These are generally common, everyday costs (expenses with life spans of less than one year) that include labor, supplies, fuel, utilities, prepaid costs such as insurance, and direct and indirect costs. These costs are required to keep water and sewer system operating primed and ready-to-go 365 days a year (e.g., fire protection). Most costs are fixed in nature (e.g., active pumps year round); only a small portion is variable costs (e.g., polymers). The below graph displays a two year average of PG&E kilowatts to run 57 pumps throughout the District. Correspondingly, we typically have \$120k in our budget to offset the 750,000 kilowatts of power used in the District each year.



- Reserves** – These funds (revenue portion unrestricted and part of base rate structure; expense side cash-flow transfer), are in preparation for purchasing major fixed assets that already exist and include capital equipment with life spans greater than one year. These infrastructures are itemized via a replacement reserve schedule. Interestingly enough, you don't have to reserve 100% for some types of assets. For example, water and sewer pipes, once constructed, can be reserved for anticipated maintenance. Besides covering 54 miles of pipes and 4 lift stations in the sewer department, the reserves are set up to cover the expectancy costs of the 60 miles of pipes and water infrastructure related items including the water treatment plant and the following list of tanks:

The distribution system consists of 22 hydraulically separated zones and supplying water is a fixed cost.

Zone Name	Zone is Supplied From	Storage Capacity
Zone 1-2-3	Plant High Lift Pumps (2 @ 400 gpm, 1 @ 200 gpm)	250,000 gallons
Zone 4	Tank 5, via gravity feed. Altitude valve in Tank 4	70,000 gallons
Zone 5-6	Tank 3, via two booster pumps (600 gpm & 300 gpm)	156,000 gallons
Zone 7-8	Tank 2, via two booster pumps (300 gpm & 550 gpm)	255,000 gallons
Zone 9-10	Tank 8, via 300 gpm pump	43,000 gallons
Zone 11	Zone 7-8, via 90 gpm pump	55,000 gallons
Zone 12	Tank 7, via two booster pumps (175 gpm each – alternate)	55,000 gallons
Zone 13	Tank 6, via 80 gpm pump	15,000 gallons
Zone 14	Zone 5-6, via two booster pumps (300 gpm & 275 gpm)	320,000 gallons
Sub-Zone 14	Tank 14, via 300 gpm pump	Hydro-pneumatic Tank (1,000-gallon capacity)
Zone 15	Tank 13, via 90 gpm pump	70,000 gallons
Sub-Zone 15	Tank 15, via 300 gpm pump	Hydro-pneumatic Tank (1,000-gallon capacity)
Zone 16	Tank 12, via two booster pumps (170 gpm & 150 gpm)	55,000 gallons
Zone 17	Tank 10, via 150 gpm pump	15,000 gallons
Sub-Zone 17	Tank 17, via two booster pumps (100 gpm-lead and 300 gpm-lag)	Hydro-pneumatic Tank (1,500-gallon capacity)
Zone 18	Tank 9, via 195 gpm pump	55,000 gallons
Sub-Zone 18	Zone 18, via two booster pumps (75 gpm & 195 gpm)	Hydro-pneumatic Tank (1,000- gallon capacity)
Zone 19	Tank 18, via 175 gpm pump (a 200 gpm standby pump)	90,000 gallons
Sub-Zone 19	Tank 19, via 300 gpm pump	Hydro-pneumatic Tank (800-gallon capacity)
Zone 20-21	Tank 16, via two booster pumps (175 gpm each)	160,000 gallons
Zone 22	Tank 21, via 175 gpm pump & Hydro-pneumatic tank (3,000 gallon capacity)	30,000 gallons
Zone 23	Zone 20-21, via two pumps (60 gpm each)	64,000 gallons

- **Contingency costs** – This is a special classification of operating costs designed for unforeseen / unanticipated / accidental / emergency type events.
- **New capital equipment** – These are new assets (expenditures / fixed assets) brought into the operations for the very first time. Once capitalized as a fixed asset, they will later become replacement reserve items.
- **Replacement reserve schedule** – A reserve planned expenditure very similar to a “Five-Year Capital Improvement Plan,” that anticipates how much, in current dollars, is needed to be set aside for future infrastructure purchases. A \$30k pick-up truck, for example, may cost \$50k ten years hence. One common fallacy in budgeting is to reserve only for book depreciation. Book depreciation looks to history as a recorded cost, while the replacement reserve schedule looks to the future (inflation).
- **User charges** – Revenues (unrestricted) derived on the principle of consumption; not subject to the incident of property ownership or Proposition 218. Consumption implies peak demand. User charges are not taxes and are primarily applied first to offset daily operational expenses (e.g., water base plus tiers; sewer base) to keep operations primed 365 days a year, *whether customer uses the commodity or not*. Again, a user charge does not simply imply turning on the spigot and being charged, it implies that the user is attached to the system that is — at all times — ready for *peak demand* anytime day or night 365 days a year (e.g., fire protection). User charges can include some reasonable amount of reserve planned expenditures (e.g., equipment demise / obsolescence). User charges are typically collected in arrears (water & sewer) and fees are generally paid in advance of service (golf course).
- **Assessment charges** – Revenues (unrestricted) derived under levy by merely owning property; akin to a blanket lien and subject to Proposition 218 (2/3 majority) if attempting to raise the assessment an additional amount beyond the current amount. Better characterized availability / capability / stand-by charges. For example, parcels in the District are subject to water availability / capability and sewer stand-by assessments. In the case of water and sewer lines, the purpose of the assessment is to maintain and improve (including capital & related studies) the delivery systems, including the reservoirs, gates, tanks, pumps, lift stations, pipelines, labor and maintenance of those systems. However, the costs attributed to water and sewer, as commodities running through the pipes, are better captured through the function of user charges (see peak demand).
- **Ad valorem tax** – A tax assessed by the County based on the value of property, and not subject to Proposition 218. The *ad valorem* tax rate is 1%. For every \$100,000 of property value we receive \$100 per year, the County gets \$900. [$\$100,000 \times 1\% = \$1,000$: District gets \$100; County gets \$900.] The assessed value of the property is adjusted annually by 2%.
- **Connection fees** – Revenue better described as “capacity / impact / development” fees, designed to offset the costs of new growth and not subject to Proposition 218. Our current water connection fee is \$11,697 (segregated into the Water Capital Facility Fund); the sewer connection fee is \$12,014 (segregated into the Sewer Capital Facility Fund). “*Sewer connection*” means the connection of a building to a public sewer system; “*water connection*” means the connection of a building to a public water system. The district owns the physical connection; the owner has the vested right-to-use such a connection under conditions set forth in Ord. 76. Total combined connection fees for water and sewer is \$23,711.
- **Special Revenue tax** – Subject to Proposition 218 and designed for a specific objective. Our Fire Department is supported by a Special Revenue tax passed in 2004. Properties defined within parcel map boundaries are subject to blanket liens under this tax. Subdivisions included are Brooktrails, Spring Creek, and Sylvandale (22 sq. miles).

GASB34 Statement

GASB34 objectives require that “informational statements” be provided to explain the budget. Some statements are very condensed, such as the GASB34 Statement of Activities, the Combination Statement, and Summary Statement. Other statements provide vast detail, such as the Revenue Statement and the Department Statements. We have also included the Replacement Reserve Schedule, the Project Statement, the Rates & Fees Statement, the Employee Salary and Benefits Statement, and the Labor Distribution Statement.

All of these documents provide different angles to assist the reader in understanding the budget. For example, the Department statements show, for historical comparison, the FY 2009-10 actual amounts, the current FY 2010-11 budget, a current 11th month year-to-date actual, the current year's forecast (June 30, 2011), and the requested FY 2011-12 budget. These statements are, for the most part, self-explanatory. †

In particular, the GASB34 Statement of Activities projects the FY 2010-11 forecast against the requested FY 2011-12 budget — with the purpose of making comparative analysis between the two periods. This statement also shows a descriptive element of separating operations from programmed grants, capital improvements, debt structure, reserves, depreciation, and transfers.

† The Combine Statement gives a two-year description / estimate of projected Fund Balances.

Other Factors:

- **Hours.** 26,000. (12½ personnel).
- **Wage/Fringe/Tax.** Wage \$792k; Fringe \$506k. Total \$1,298k. (COLA portion 2.1%)
- **Reserves.** The reserve study indicated that we have approximately \$12 million of replaceable above ground infrastructure; and about \$5 million in land related improvements.
- **Water.** Our CA DHS number of service connections is 1,578.
- **Clarifier.** This 93,000 gallon specialty tank has been delayed for better times. Its current cost estimate is \$1,060k with an escalation factor of \$80k per year into the future.
- **Tank Liner.** Ongoing replacement reserve program budgeted for another \$20k for next year.
- **SCADA.** We will continue with this radio telemetric program. We have about 75% coverage of the 24 tanks, plus the sewer lift stations, as well as the dam monitor building.
- **Sonic.** We intend to install a sonic algae controller on Lake Ada Rose.
- **County 2nd Access Road.** This “collector / safety road” is the most significant global project the District confronts. MCOG has identified this road carrying 8,000 + vehicles a day on a road designed for 2,500 vehicles per day. The 2nd Access Road is the key to the expansion of the Ada Rose Dam Project.
- **Sewer.** After purchasing our sewer vacuum truck / camera unit in 2009 we have significantly stepped up the sewer cleaning maintenance program. We included \$10k for a sewer casing program for infiltration, plus another \$10k for smart-lid manhole covers to reduce inflow in some problem areas.
- **Golf.** The Golf course operations will require a subsidy of \$7k. Ron Runberg, PGA, proposed not to raise golf fees for FY 2011-12. Golf subsidies next year will be \$7k.
- **Fire.** The General Fund will transfer \$90k next year to the fire department next year.
- **Parks.** Parks have been hurt by the litigation case because parks are dependent upon the general health of the General Fund.
- **Administration.** Our previous goal of attempting to leverage money has now been reduced to just “staying in the black.”

Fees.

Please see our rates and fees chart for details.

Cash Position. As of May 31, 2010 our cash position is as follows:

General Fund	\$458k
Water Capital Facility Fund	63k
Water Enterprise Fund	(132k)
Sewer Capital Facility Fund	346k
Sewer Enterprise Fund	631k
Fire Fund	<u>(54k)</u>
Total	\$1,352k

Loans (5/27/2011)

WATER LOANS (5/27/2011)	
USDA Loan № 1 Clearwell & Backwash Ponds	Original amount \$454,000 @ 4.25% 6/13/2005 Current Balance \$429,600 Payment amount about \$24,000 annually Final Payment Due 6/1/2045
USDA Loan № 2 Clearwell & Backwash Ponds	Original amount \$149,000 @ 4.25% - 7/25/2006 Current Balance \$142,698.20 Payment amount \$7,811.00 annually Final Payment Due 7/25/2045
USDA Loan № 3 Dam Modification & Gates	Original amount of \$3,106,835.89 @ 4.25% - 4/16/2009 - 5/15/2009 Current Balance \$3,008,835.89 Payment amount about \$163,000 annually Final Payment Due 4/15/2048
Savings Bank of Mendocino County Loan No. 7010010687	Principal \$ 265,000.00 (unsecured) 5.50% over 180 days 7,287.50 (6 mo. Interest) \$272,287.50 Total
SEWER LOANS (5/27/11)	
USDA Loan № 4 Vacuum Truck / Sewer Camera	Original amount of \$330,000.00 @ 4.375% 10/22/2009 Current Balance \$313,971.50 Payment amount \$30,466.00 annually Final Payment Due 10/15/2024
FIRE LOAN - First Response Vehicle	Labette Bank • 2121 Main Street • Parsons KS 67357 Original amount \$58,158.91 @ 5.75% 1/15/09 Current Balance \$33,083.75 Payment amount \$1,117.63/mo. = \$13,411.56/annually Final Payment Due 01/15/2014

Closing.

Budgets evolve in stages and nothing is etched in stone. We will listen to input from the Board of Directors and the public to insure that next year's budget fits the fiduciary needs of the community. With that knowledge we try to set realistic policy goals that can be met next year with proper financial background. In summary, we try not to look at the budgeting process as a 12-month process, but realistically a 36-month process (i.e., history → current → target).

I would like to thank Lori Mayo, Finance Assistant, for her help in this budget. We take this document seriously — and while not perfect by any means — we spent many hours in the preparation of this financial plan. For more information please contact our office: Brooktrails Township CSD, 24860 Birch Street, Willits, CA 95490 (707-459-2494).