

Agenda
Sacramento Suburban Water District
Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Friday, August 12, 2016
3:00 p.m.

Where appropriate or deemed necessary, the Board may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Board concerning an agenda item either before or during the Board's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The President will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Roll Call

Announcements

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. 2017/18 Budget Assumptions
Receive written report and direct staff as appropriate.

Adjournment

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Upcoming Meetings:

Monday, August 15, 2016, at 6:30 p.m., Regular Board Meeting

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I certify that the foregoing agenda for the August 12, 2016, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by August 9, 2016, in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100 and 300, Sacramento, California, and was made available to the public during normal business hours.

Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 1

Date: August 8, 2016

Subject: 2017/18 Budget Assumptions

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Proposed 2017/18 key Budget¹ assumptions are attached. Staff seeks Committee input and direction.

Discussion:

Each year at the inception of the annual budget process, staff provides the Committee with certain key assumptions that are necessary to begin the Budget preparation process. These assumptions are based on either historical experience or reflect current or expected economic and climatic conditions. While these assumptions are necessary in order to provide an initial draft for Board/Committee review, such assumptions are subject to change at Board discretion throughout the Budget preparation process.

District revenues and expenses are evaluated over a 2 year horizon; a formal budget adopted for the first year, and a “forecast” for the second year. CIP and OCB projects are expected to be approved over the 2 year planning period.

As required by policy, the District’s Reserve Policy (Exhibit 1) is attached for review/comment and will continue to be provided for review/comment during the entire budget process.

¹ The Budget is comprised of the Operations and Maintenance Budget (O&M), Operating Capital Budget (OCB), and the Capital Improvement Program Budget (CIP).

2017/18 Budget

Finance & Audit Committee

August 12, 2016

Mission Statement

- *To deliver a high quality, reliable supply of water and superior customer service at the lowest responsible price.*

Strategic Plan Goals

- **Water Supply:**
 - Assure a present and long-term safe and reliable supply of high quality water in an environmentally responsible and sustainable manner for District customers.
- **Facilities and Operations:**
 - Plan, construct, operate and maintain the District water system embracing sustainable practices to provide reliable delivery of high quality water.
- **Customer Service:**
 - Assure superior and reliable customer service.
- **Finance:**
 - Ensure effective and efficient management and public reporting of all District financial processes.
- **Leadership:**
 - Provide leadership on regional, statewide and national water management issues that impact the customers.

2017/18 Budget Development Process

- Staff Development of Budgets
- Finance and Audit Committee – 08/12/16, 3:00 pm
 - Initial Presentation; Provide Direction to Staff
- August Board Meeting – 08/15/16
 - Status Report; Provide Direction to Staff
- Board Workshop – 09/09/16, 6:00 pm
 - Initial Presentation; Provide Direction to Staff
- September Board Meeting – 09/19/16
 - 2nd Draft Presentation; Provide Additional Direction to Staff
- October Board Meeting – 10/17/16
 - Budget Approval or Additional Direction to Staff

2017/18 Budget Process

- Two Year Planning Process
 - Revenue and Expenses Projected over a 2 Year Horizon
 - Budget Adopted for First Year
 - Forecast Provided for Second Year
- CIP and OCB Projects Approved for 2 Year Period

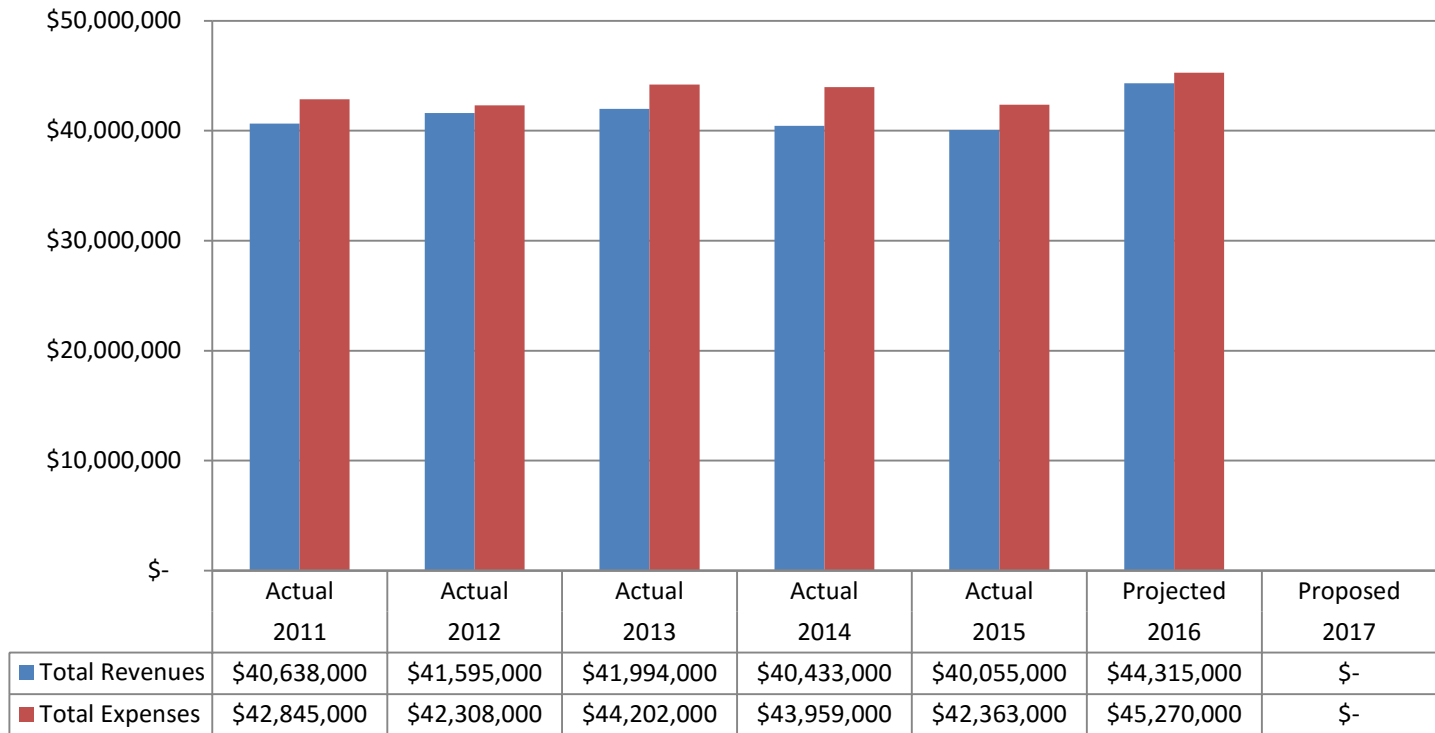
2016 Budget

SACRAMENTO SUBURBAN WATER DISTRICT 2016 Amended Budget

	<u>2014 Actual</u>	<u>2015 Actual</u>	<u>2016 Original Budget</u>	<u>2016 Amended Budget</u>
Water Sales Charge	\$ 10,826,599	\$ 9,644,073	\$ 11,260,000	\$ 10,850,000
Water Service Charge	6,306,241	6,401,956	6,945,000	7,000,000
Capital Facilities/Debt Repayment Charges	20,677,853	21,646,182	22,031,000	22,000,000
Wheeling Water Charge	5,551	6,368	278,000	560,000
Other Charges for Services	1,113,269	991,840	1,034,000	1,000,000
Total Income From Customers	<u>38,929,513</u>	<u>38,690,419</u>	<u>41,548,000</u>	<u>41,410,000</u>
Water Transfers			\$ 1,350,000	
Interest Income	\$ 548,363	\$ 457,731	680,000	\$ 680,000
Other Income (Leases-Bldg, Cell Towers)	368,031	364,326	300,000	300,000
Facility Development Charges	560,784	542,558	500,000	500,000
Grant Income	25,809	413,879	1,068,000	1,425,000
Total Revenue	<u>\$ 40,432,500</u>	<u>\$ 40,468,913</u>	<u>\$ 45,446,000</u>	<u>\$ 44,315,000</u>
Debt Service Costs - principal	(3,675,000)	(3,795,000)	(3,945,000)	(3,945,000)
Debt Service Costs - Interest expense	(3,802,350)	(3,630,000)	(3,860,000)	(3,660,000)
Operations and Maintenance Budget	(15,369,774)	(16,263,403)	(17,698,400)	(16,860,400)
OPEB - Annual Required Contribution	(592,700)	(591,000)	(459,600)	(459,600)
Amount Remaining for Capital Projects	<u>16,992,676</u>	<u>16,189,510</u>	<u>19,483,000</u>	<u>19,390,000</u>
Operating Capital Budget	(702,357)	(905,234)	(1,088,000)	(974,000)
Capital Improvement Program Budget	(19,826,144)	(17,179,317)	(18,395,000)	(18,516,000)
Change in Reserve Balance	<u>(2,495,684)</u>	<u>(1,895,041)</u>	<u>-</u>	<u>(100,000)</u>
Reserve (Cash) Balance	<u>\$ 44,812,477</u>	<u>\$ 43,839,120</u>	<u>\$ 43,839,120</u>	<u>\$ 43,739,120</u>

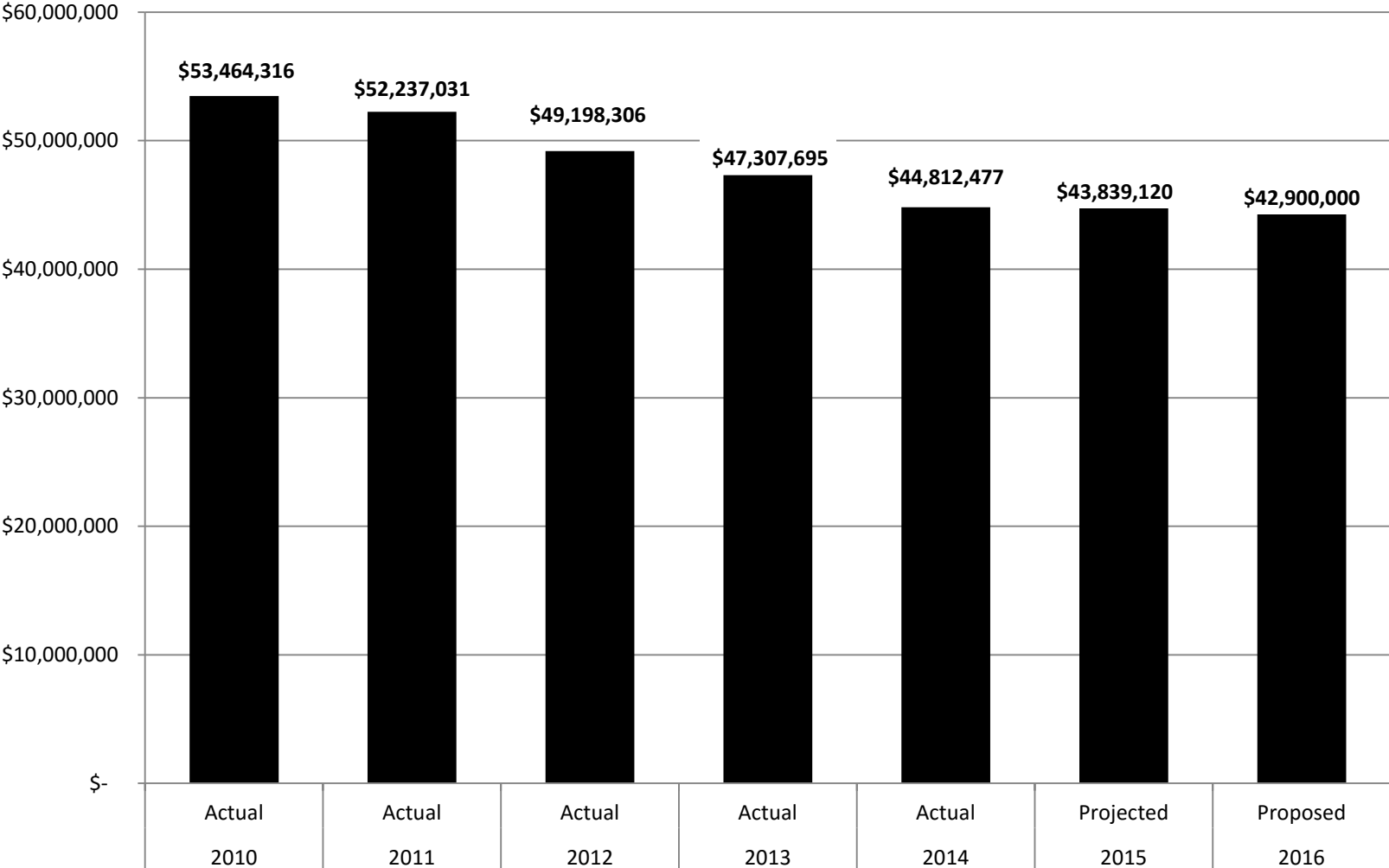
Note: Bolded lines are the budgets – O&M, CIP, OCB and Debt Service

Total Revenues Vs Total Expenditures 2011 to 2016



District expenses continue to exceed revenues.

Reserve Balance 2010 to 2016



As District expenditures continue to exceed revenues, cash reserves continue to decline. Eighth year in a row for reserve balance decreases.

2017/18 Budget Changes

- CIP and OCB Projects Approved for 2 Year Period
- CIP Projects-In-Process at end of 2017 will be budgeted for completion in 2018
- See Illustration on Next Slide

2017/18 Budget Changes

➤ CIP Illustration:

➤ Current Process:

	2016	2017	2018
In-Process from Prior Year	\$1,715,000	\$1,680,000	
New Projects	\$18,360,000	\$19,795,000	
In-Process at Year-End	(\$1,680,000)	(\$2,275,000)	
Annual Budget	\$18,395,000	\$19,200,000	

➤ New Process:

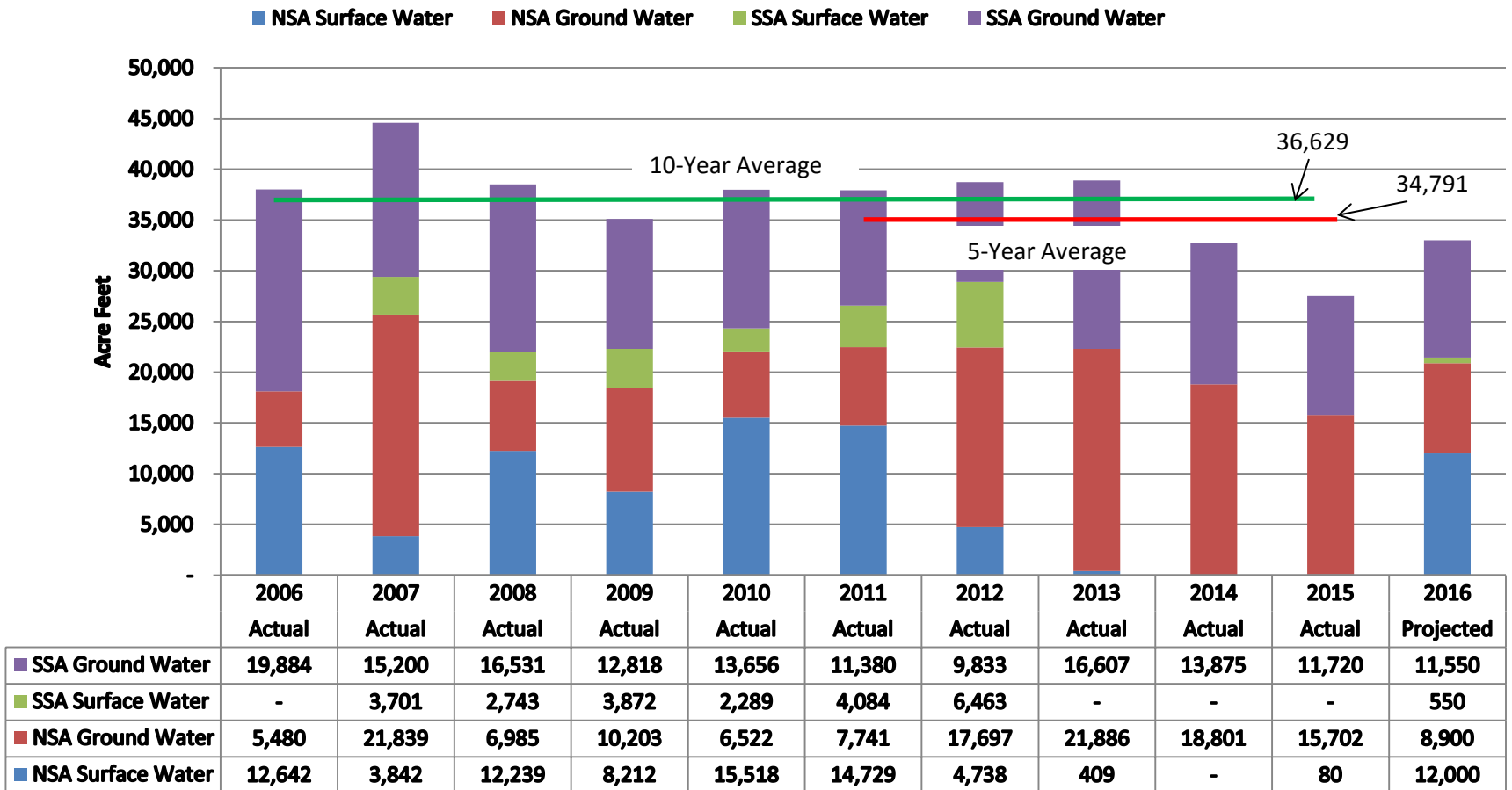
	2016	2017	2018
In-Process from Prior Year	\$1,715,000	\$1,680,000	\$2,275,000
New Projects	\$16,680,000	\$17,520,000	To Be Determined in Next Budget Cycle
In-Process at Year-End			
Annual Budget	\$18,395,000	\$19,205,000	

2017/18 Budget Assumptions

Sacramento Suburban Water District Budget Assumptions									
Key Assumptions		2015		2016		2017		2018	
1	Rate Increase	4.00%	\$1,553,000	4.00%	\$1,615,000	0.00%	\$ -	4.00%	\$1,560,000
2	No Change in SSWD Service Boundaries								
3	New Service Connections (Growth)	Increase	0.43%	Increase	0.43%	Increase	0.52%	Increase	0.52%
4	Water Production: (A)	<u>Cost/AF</u>	<u>AF</u>	<u>Cost/AF</u>	<u>AF</u>	<u>Cost/AF</u>	<u>AF</u>	<u>Cost/AF</u>	<u>AF</u>
	a. Water Supply Forecast Based on 5 Year Average								
	b. SSA Surface Water (City)	\$ 332.00	1,000 AF	\$ 428.80	550 AF	\$ 450.24	1,000 AF	\$ 472.75	1,000 AF
	c. SSA Groundwater (Electricity, Chemicals, SGA, etc.)	\$ 108.60	16,500 AF	\$ 93.74	10,550 AF	\$ 97.49	15,000 AF	\$ 101.39	15,000 AF
	d. NSA Surface Water (PCWA)	\$ 35.00	12,000 AF	\$ 35.00	12,000 AF	\$ 35.00	12,000 AF	\$ 35.00	12,000 AF
	e. NSA Surface Water (Wheeling)	\$ 19.00	12,000 AF	\$ 27.04	12,000 AF	\$ 28.12	12,000 AF	\$ 29.25	12,000 AF
	f. NSA Surface Water (Treatment)	\$ 65.00	12,150 AF	\$ 135.34	12,000 AF	\$ 160.00	12,150 AF	\$ 168.00	12,150 AF
	g. NSA Groundwater (Electricity, Chemicals, SGA, etc.)	\$ 96.33	8,350 AF	\$ 80.60	8,900 AF	\$ 84.63	6,850 AF	\$ 88.01	6,850 AF
	h. NSA Bureau 215 Water	\$ 71.00	150 AF	\$ 72.80	0 AF	\$ 76.44	150 AF	\$ 80.26	150 AF
	i. NSA Wheel Water from Citrus Heights	\$ 24.20	300 AF	\$ 30.38	0 AF	\$ 30.99	300 AF	\$ 31.61	300 AF
	j. NSA Wheel Water to Citrus Heights (Revenue)	\$ (24.20)	300 AF	\$ (30.38)	0 AF	\$ (30.99)	300 AF	\$ (31.61)	300 AF
	k. NSA Wheel Water to Cal-AM (Revenue)	\$ (196.48)	2,000 AF	\$ (196.48)	2,000 AF	\$ (196.48)	2,000 AF	\$ (196.48)	2,000 AF
	l. NSA Wheel Water to RLEPWD (Revenue)	\$ (457.38)	500 AF	\$ (474.80)	0 AF	\$ (496.58)	500 AF	\$ (496.58)	500 AF
5	Other Outside Water Sales		None		None		None		None
6	Investment Yield		1.50%		1.75%		2.00%		2.00%
7	Variable Debt Interest Rate		4.00%		3.86%		3.86%		3.86%
8	Electrical Cost Increase		2.50%		2.50%		2.50%		2.50%
9	COLA (As of July 31)		1.80%		0.30%		0.50%		1.00%
10	Merit Program		3.00%		4.00%		4.00%		4.00%
11	Construction Inflation (B)		2.70%		2.10%		3.40%		2.50%
12	Health Care Cost (C)		4.90%		2.60%		-2.00%		3.00%
13	Tier 1 Pension Cost (% of Salaries)		25.82%	\$ 317,000	21.70%	\$373,000	21.50%	\$ 400,000	22.00%
14	Tier 2 Pension Cost (% of Salaries)		19.84%	\$ 5,000	16.20%	\$ 7,500	16.10%	\$ 10,000	17.00%
15	Tier 3 Pension Cost (% of Salaries)		6.70%		6.73%	\$ 200	6.90%	\$ 1,000	7.00%
16	New Hires		None		1		2		2
17	Funding of Post Retirement Benefits		\$ 591,000		\$ 459,600		\$ 472,200		\$ 485,200
Footnote:									
(A)	SSA = South Service Area; NSA = North Service Area								
(B)	20 Cities CCI Index, Source: ENR								
(C)	From UnitedHealthcare to HealthNet Smart Care HMO								

O&M Expense Detail

Water Production



Production amounts for 2016 – 33,000 AF - based on prior 5 year average, which is less than SGA Sustainable Pumping Goal of 35,035 AF per the Water Accounting Framework.

2017 Water Production Budget Options

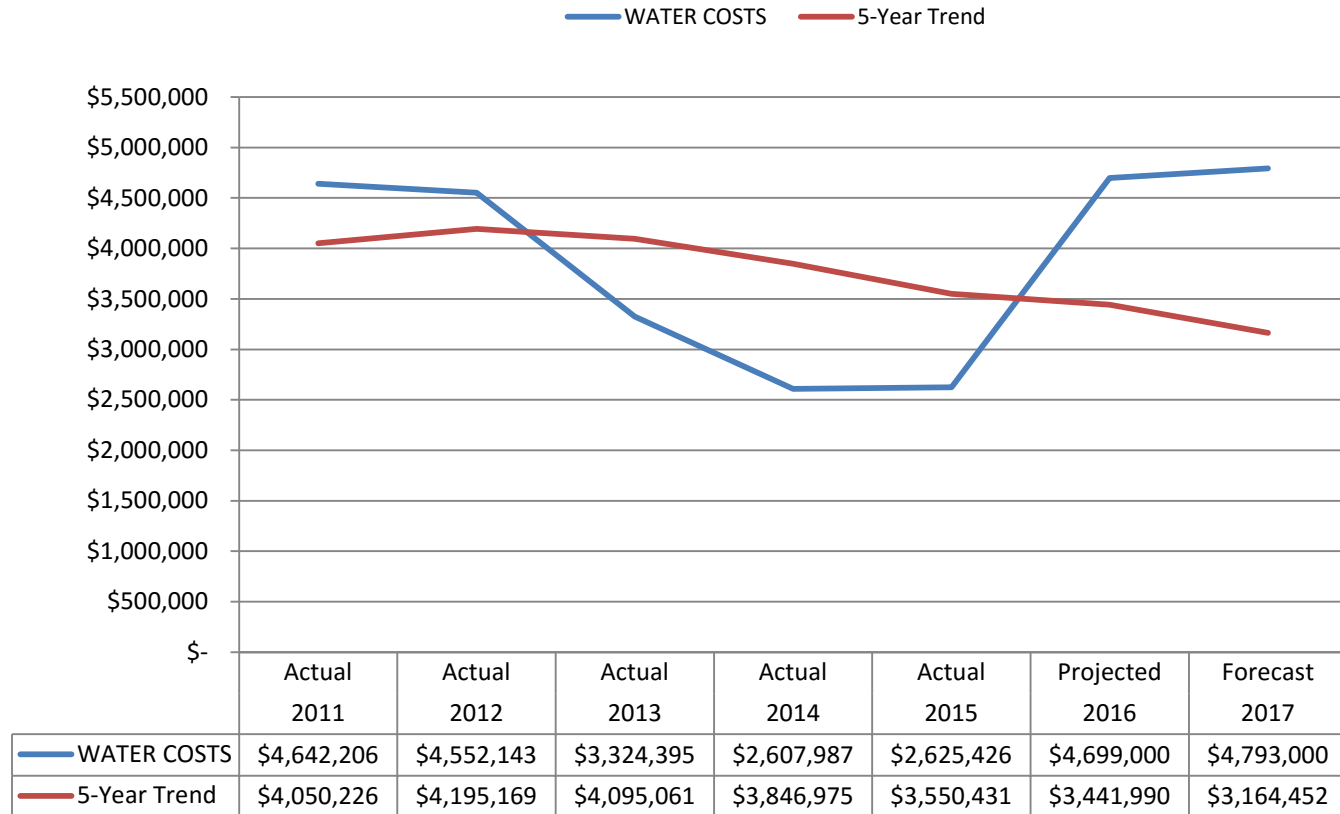
	Average	Average	2016	Options			
	<u>Prior 10 Years</u>	<u>Prior 5 Years</u>	<u>Estimate</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
SSA Ground Water	13,914	12,494	11,550	11,100	13,200	12,100	15,000
SSA Surface Water	2,155	1,850	550	1,000	1,000	-	1,000
NSA Ground Water	12,887	15,121	8,900	8,900	10,900	8,900	6,850
NSA Surface Water	7,674	5,326	12,000	12,000	12,150	12,000	12,150
Total Production	36,629	34,791	33,000	33,000	37,100	33,000	35,000

Options:

1. Assumes Dry Year Usage Comparative to CY 2014.
2. Assumes Wet Year Usage Comparative to CY 2013.
3. Same as Option 1, Except no City Surface Water Purchased.
4. Same as Original Budget for 2016.

O&M Expense Detail

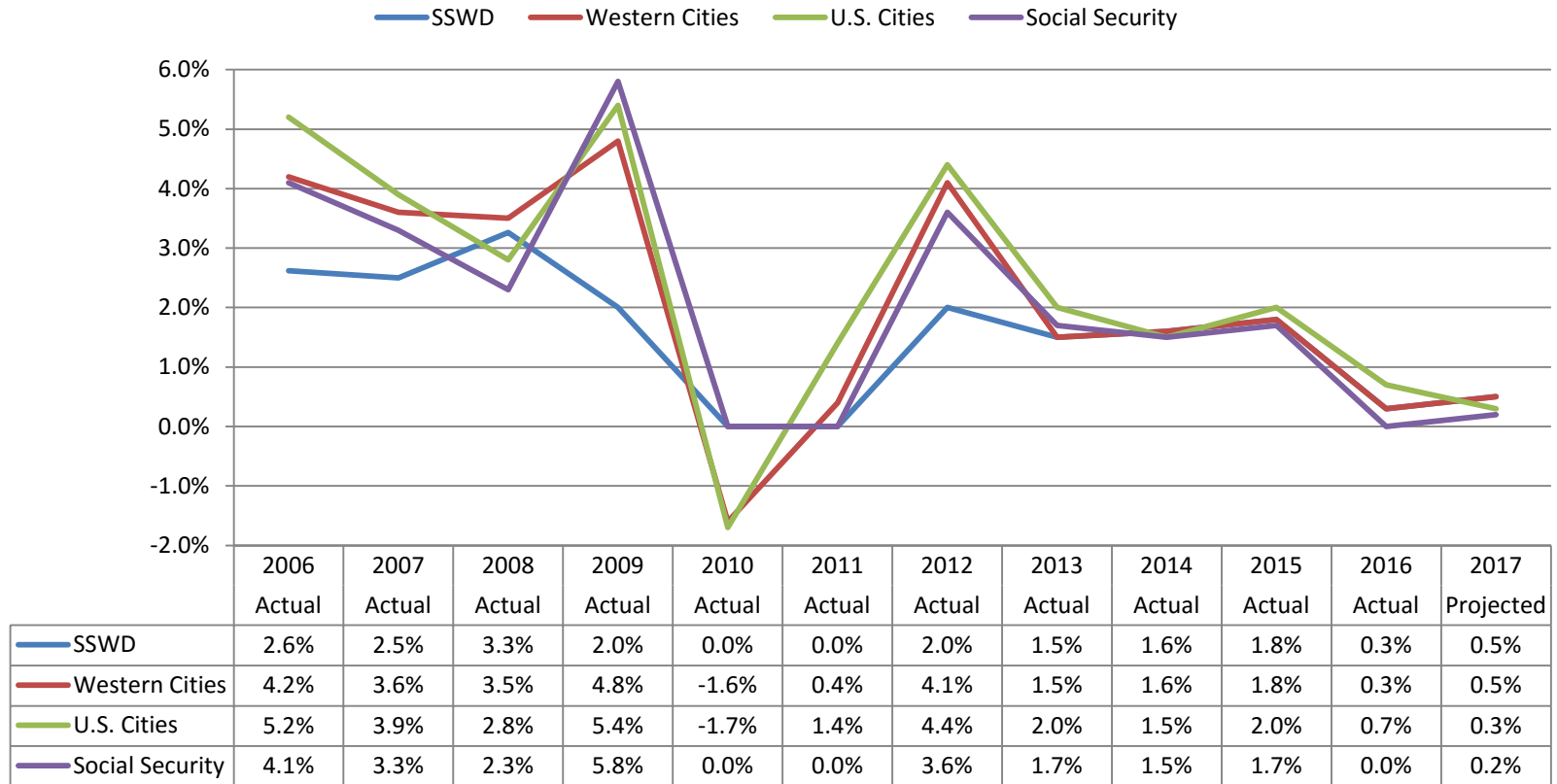
Water Costs



Water costs fluctuate based on hydrological conditions. Due to the conditions in 2013, 14 and 15, surface water Was largely unavailable. Surface water is available in 2016 and presumed to be available in 2017.

O&M Expense Detail

COLA

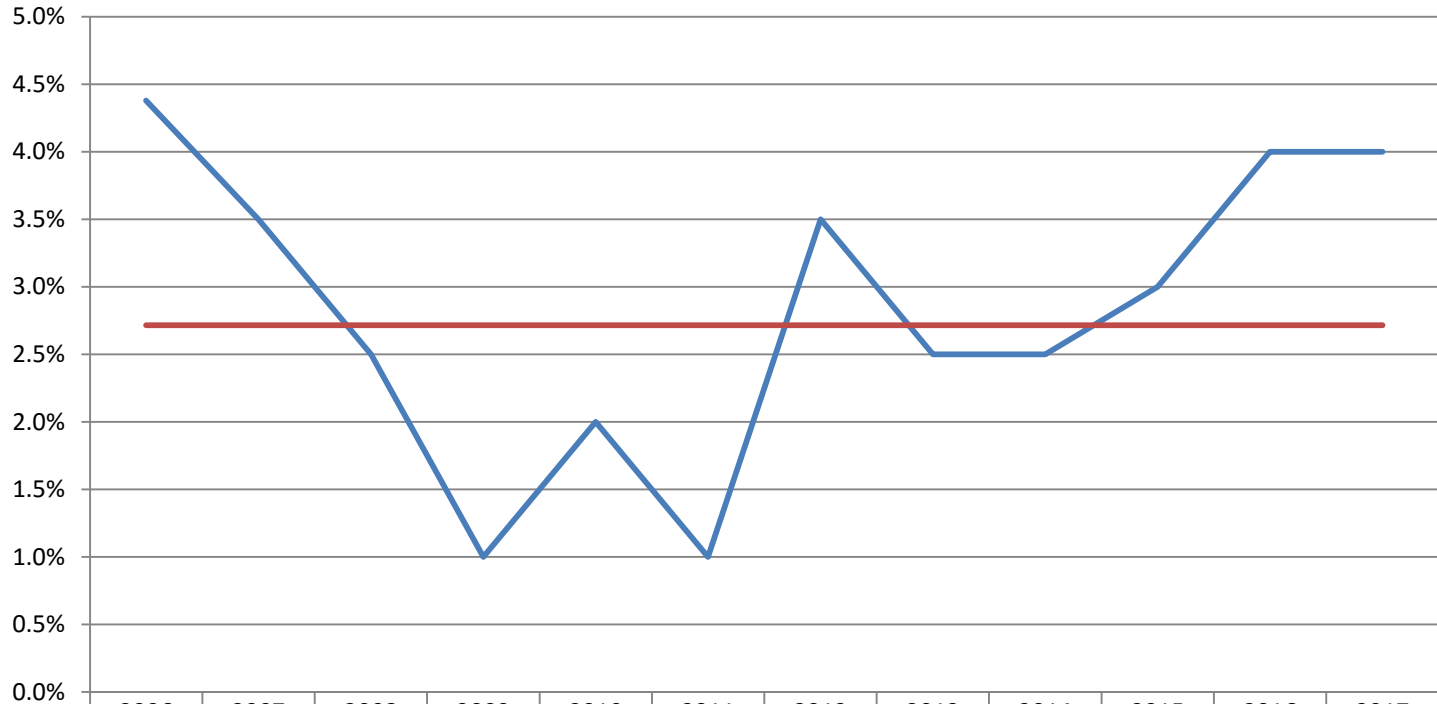


SSWD COLA is intended to be equal to the Western Cities Index. Comparison is also shown to National CPI and SS Indices.

O&M Expense Detail

Merit

— SSWD — Average

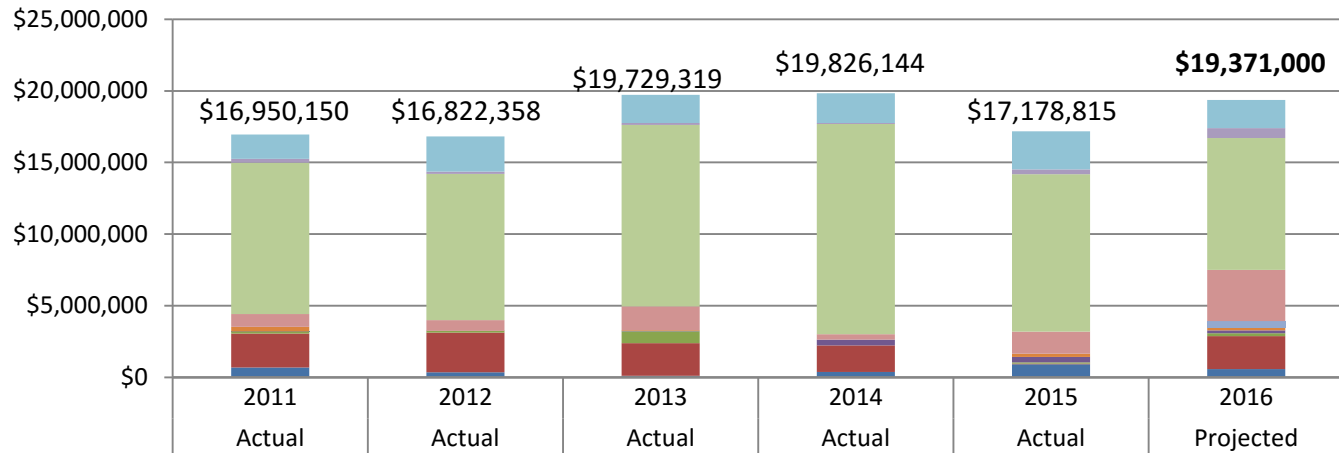


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Proposed
SSWD	4.4%	3.5%	2.5%	1.0%	2.0%	1.0%	3.5%	2.5%	2.5%	3.0%	4.0%	4.0%
Average	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%

Staff's recommendation is consistent with 2016 and average of prior years.

CIP Budget

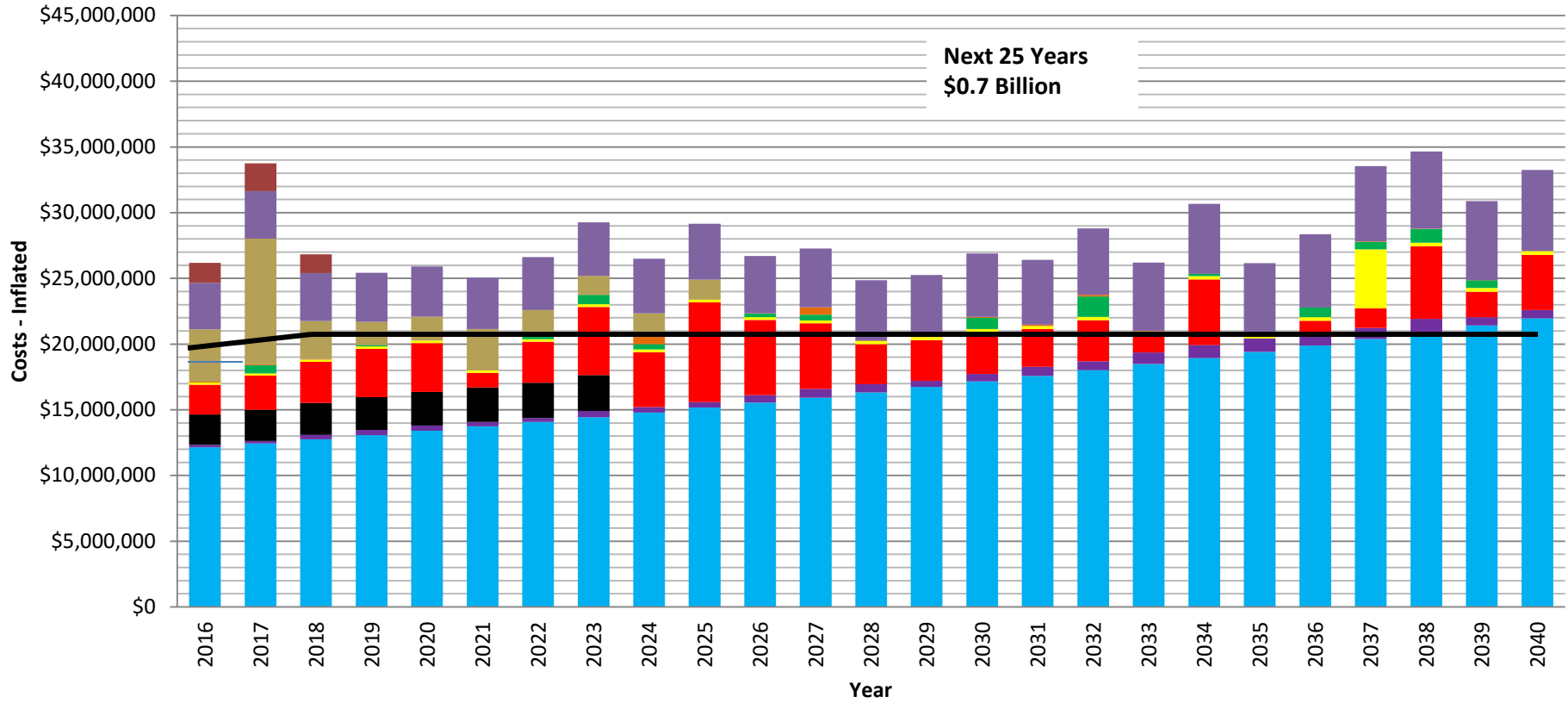
CIP Project Costs 2011 to 2016



	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Projected
■ Meter Retrofit AMP	1,687,709	2,462,887	1,961,709	2,060,561	2,652,500	1,975,000
■ Meter Replacement & Repair AMP	275,191	152,219	132,922	80,975	347,150	698,000
■ Dist. Main Replacement AMP	10,558,971	10,212,546	12,674,933	14,672,460	10,989,238	9,195,000
■ Well Replacement AMP	894,325	744,091	1,655,646	377,974	1,532,233	3,576,000
■ Transmission Main AMP	-	-	-	-	-	450,000
■ Reservoir and Booster P.S. AMP	352,600	21,040	36,373	-	221,300	200,000
■ Buildings and Structures AMP	14,599	-	-	-	-	-
■ SCADA AMP	-	2,341	54,245	404,802	378,687	200,000
■ From 2009 Water System Master Plan	115,293	102,571	833,148	-	98,057	200,000
■ Other Re-Occurring Annual Capital Costs	2,352,022	2,774,657	2,274,474	1,859,724	49,292	2,310,000
■ Other Capitalized Projects	699,440	350,006	105,869	369,648	910,358	567,000

Capital Costs Next 25 Years

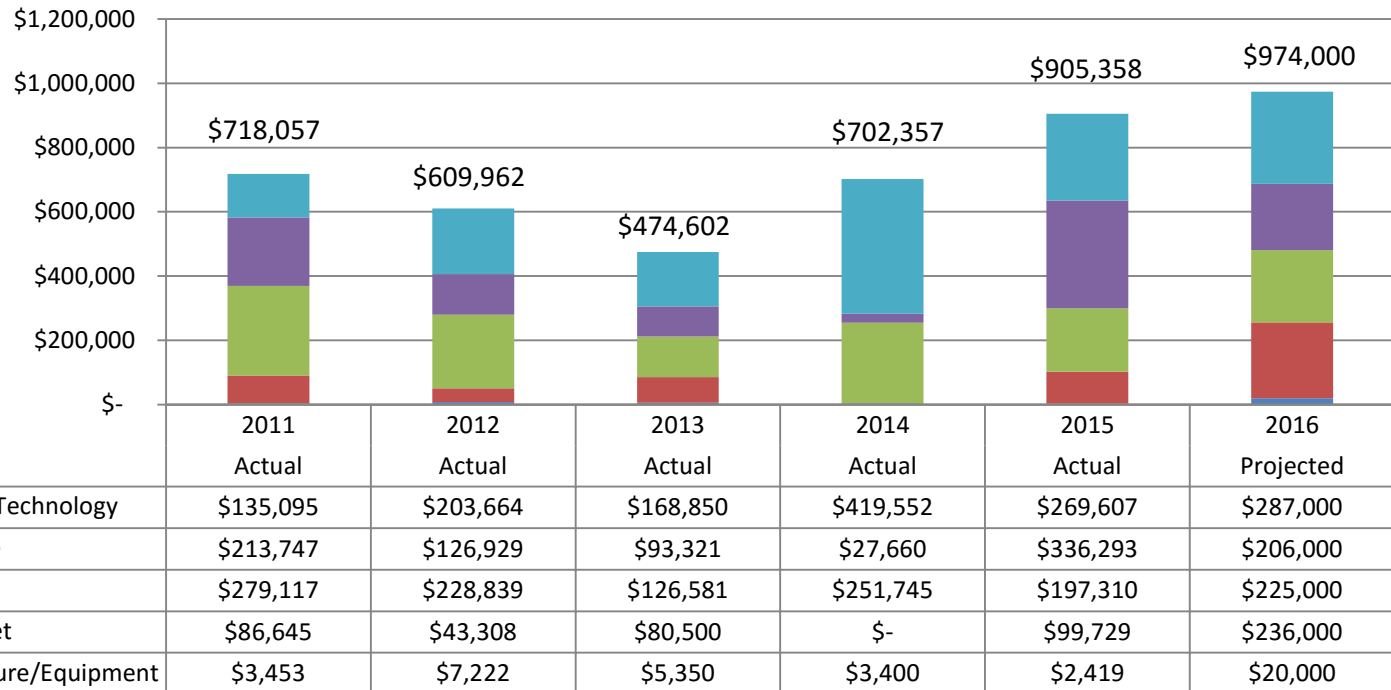
- Distribution Main Replacements
 - Meter Retrofit Program
 - Transmission Main Asset Management Plan
 - Buildings and Structures Asset Management Plan
 - Other Re-Occurring Annual Capital Costs (Not Included in Asset Management Plans)
- Meter Replacement and Repair Program
 - Groundwater Well Replacement
 - Reservoir and Booster P.S. Asset Management Plan
 - Other Capital Needs from 2009 Water System Master Plan1
 - SCADA Master Plan



Over the Next 25 Years, Capital Costs Continue to be Underfunded.

OCB Budget

OCB Project Costs 2011 to 2016



Sacramento Suburban Water District

Reserve Policy

Adopted: August 18, 2003

Revised: September 20, 2004; August 21, 2006; August 18, 2008, November 19, 2012,
January 27, 2014; November 16, 2015

100.00 Purpose of the Policy

The District will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

The primary purposes of this policy are: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

200.00 Policy

200.10 Fund Classification Types

The District shall maintain three fund classifications that collectively comprise the District's reserve fund balance. Fund classifications are a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon it. The fund classifications are - Restricted funds, Committed funds and Assigned funds, with distinction among the funds based on the relative strength of the constraints that control how amounts can be spent.

Restricted funds include amounts that can be spent only for specific purposes stipulated by law or third parties, such as grantors or creditors. Committed funds include amounts that can be used only for specific purposes as determined by Board action. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

200.20 Restricted Funds Classification

Restricted funds are those financial assets subject to enforceable third party constraints, such as those imposed by creditors, grantors, laws or regulation.

Debt Service Reserve Fund

Financial assets held by the District per bond or certificate-of-participation (COP) debt covenants. The amount of assets to be held as debt service reserves is determined at the time of debt issuance. Such assets may only be used to repay the outstanding bond or COP for which the assets were placed in reserve as long as the bond or COP remains outstanding.

200.30 Committed Funds Classification

Committed funds are those financial assets identified by the Board for specific purposes as determined by Board resolution or ordinance. Such financial assets are to be utilized only as directed by the Board.

Facilities Reimbursement Fund

As established by the Board in the District's Regulations Governing Water Service (Regulations), the District will retain a percentage of Facility Development Charges collected each fiscal year for the purpose of repaying individuals or businesses who were required to install up-sized lines or extension facilities at the request of the District. Disbursements will be made in accordance with the Regulations, including the release of unexpended funds into the District's unrestricted net position.

200.40 Assigned Funds Classification

Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board as needs arise.

Emergency/Contingency Fund

Financial assets held for purposes of continued operations during times of severe economic distress due to events that require an immediate and/or significant use of cash. Such severe economic situations may include otherwise insurable events for which the timely receipt of cash may be delayed. The District shall target a balance of twenty-five percent (25%) of its following year's anticipated annual revenues in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be approved by the Board.

Prior to amounts being expended from this fund, the District shall establish a contingency plan that addresses, at a minimum:

1. The reason(s) for expenditures from this fund.
2. Amounts expected to be expended.
3. The funds replenishment timeline and funding source.

Operating Fund

Financial assets held primarily in the form of cash and cash-equivalents for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The District shall target a minimum balance in short-term investments and/or cash equal to twenty-five percent (25%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. Conditions for utilization of these reserves and a plan for fund replenishment will be determined by the Board at annual budget time.

The operating fund reflects the timing difference between billing for revenues and payment of expenses. The target level is a financial measure or guideline. If the fund level drops below the twenty-five percent target balance, that is a sign for staff to review the fund and, if necessary, bring recommendations to the Board to assure the fund will not continue to decline.

Rate Stabilization Fund

Financial assets held for purposes of managing cost variability in obtaining, treating and delivering potable surface water and groundwater. This Fund is focused on consumption fluctuations related to customer demand and purchasing of surface water as part of the District's conjunctive use efforts. Consumption charges established in the rate setting process forecast customer demand based on a repeat of average, recent climactic conditions. Financial fluctuations occur when situations vary from the assumption. The District shall target a balance of fifty percent (50%) of its expected upcoming year consumption revenues in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be directed by the Board at annual budget time.

Interest Rate Risk Management Fund

This fund is derived from earnings based on financial assets held as short-term investments pursuant to interest rate risk exposure assumed by the District upon the issuance of floating-rate debt. The amount of investments from which earnings are derived and accumulated will be determined at the time of debt issuance. Earnings on such investments will be used to repay a portion of the interest expense on the outstanding floating-rate bond or COP as long as the bond or COP is subject to interest rate risk exposure. This fund will be reduced in line with the amortized balance of the interest-rate swap(s).

Grant Fund

Financial assets held for purposes of funding the "local cost share" and advance payment of eligible reimbursable costs on capital projects funded partially from grant awards. As eligibility for potential grant awards requires the District to demonstrate financial viability to fund anticipated project costs, the District shall maintain a minimum balance equal to the combined sum of anticipated costs for those projects considered grant eligible in the upcoming biennial period. Conditions for utilization of such reserves and a plan for fund replenishment will be determined at the time of grant award.

Capital Asset Fund

Financial assets held for purposes of funding District capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. Through the annual budget process, staff shall recommend capital replacement projects and any necessary appropriations from this fund. The District shall target a balance to sufficiently fund anticipated capital improvement project replacement cost deviations above the CIP funding level. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

Facilities Development Charge Fund

Financial assets held for expenditure on growth/capacity-related capital asset projects only. Amounts deposited into this fund come from unexpended facility development charges collected from developers (see related Facilities Reimbursement Fund in section 200.30 above.) These growth/capacity-related capital asset projects form the cost-basis and legal nexus for the establishment and collection of the Facility Development Charges. This fund is dependent upon customer growth. Therefore, there is no prescribed target or minimum balance.

300.00 Disposition of “One-Time” Revenues

“One-time” revenues are revenues of an unusual or infrequent nature which are likely not the result of the District providing services and producing and delivering goods in connection with the District’s principal ongoing operations (e.g. legal settlement). Unless specifically earmarked by Board action otherwise, “one-time” revenues should be transferred to the appropriate reserve fund which best represents the reason for the “one-time” revenue.

400.00 Authority

The General Manager is responsible for the appropriate accounting and regular reporting of the District’s reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

500.00 Procedure

District staff will maintain procedures for each fund classification, to be approved by the General Manager, and in conformance with this Policy.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five (5) year period to the established or re-established target as directed by the Board.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of revenue dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

600.00 Policy Review

This Policy will be reviewed annually as part of the budget adoption process.