

Agenda
Sacramento Suburban Water District
Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Monday, June 13, 2016
4:00 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. First Draft - 2016 Amended Budget
Receive written report and direct staff as appropriate.

Adjournment

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Upcoming Meetings:

Monday, June 20, 2016, at 6:30 p.m., Regular Board Meeting
Thursday, June 23, 2016 at 4:00 p.m., Facilities and Operations Committee Meeting

I certify that the foregoing agenda for the June 13, 2016, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by June 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: June 8, 2016

Subject: First Draft - 2016 Amended Budget

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Consider recommending to the full Board, adoption of an amended 2016 Budget as follows:

1. Approve amending the 2016 Operations & Maintenance Budget (O&M) from \$18,158,000 to \$17,320,000 based on cost savings associated with 2,000 acre-feet of reduced water production, savings on surface water costs plus certain other cost savings.
2. Approve amending the 2016 Capital Improvement Program Budget (CIP) from \$18,395,000 to \$18,516,000 based primarily on costs associated with 2 Groundwater Monitoring Wells approved by the Board in March 2016.
3. Approve amending the 2016 Operating Capital Budget (OCB) from \$1,088,000 to \$974,000 by deferring two projects to 2017 and eliminating other funding needs, net of increasing the budget for the Water System Master Plan.
4. Authorize the use of approximately \$100,000.00 from District reserves to pay expenses not covered by expected revenues.

Discussion:

In December 2015, as part of the discussion on the scheduled January 2016 four-percent rate increase and due to uncertainty related to 2016 hydrological conditions and State drought regulations, the Board requested amendments to the 2016 budget, if any, be brought before the Board in June 2016 for consideration. Staff has prepared an amended budget for the Committee to consider recommending to the full Board for adoption.

The amended budget consists of estimating the financial impact of the following events (See Table on page 2 for the financial impact of each numbered item below):

1. Due to the wet spring and the removal of drought-emergency-based conservation measures in June, water production is estimated to be reduced by 2,000 acre-feet relative to the 35,000 acre-feet assumed at Budget adoption. Further, customer demand in the North Service Area is expected to increase by 2,450 acre-feet above the 19,000 estimated at Budget adoption, while demand in the South Service Area is expected to decrease by 4,450 acre-feet for a total of 11,550 acre-feet.
2. The cost to purchase surface water from the City of Sacramento is \$429/acre-foot. The original budget called for purchasing 1,000 acre-feet at a cost of \$429,000. By using groundwater, the substitution cost is roughly \$90,000 for a savings of \$339,000.

3. Commensurate with the June 2016 declaration of a normal water year, water conservation outreach efforts will be reduced. Further, customers have not been seeking District rebate funds to the degree anticipated in the original Budget.
4. Commensurate with Board action in April, \$100,000 earmarked for the potential consolidation study with San Juan Water District has been removed from the Budget.
5. The District budgeted for an enhanced outreach effort in 2016 consisting of an additional mass mailing to customers and interested parties. This enhancement can be postponed in light of budget constraints.
6. Efforts to secure a long-term Warren Act contract are expected to cost \$200,000 more than included in the original Budget.
7. As discussed with the Board in March, the original Budget for the 2 groundwater monitoring wells was \$50,000 as it was assumed the wells would be mostly completed in 2015. Now, after grant funds of \$157,000 are received, District costs are expected to be \$250,000, for a budget increase of \$200,000. Further reductions of \$79,000 will come from certain projects.
8. Two OCB projects slated for 2016 can be deferred to 2017 – New Website and the GPS Asset Location Project for a savings of \$110,000. Certain computer hardware and an upgraded telephone system slated for 2015/2016, were mostly completed in 2015, resulting in a \$65,000 budget reduction for 2016. Offsetting these decreases, is a need for \$61,000 to complete the Water System Master Plan.
9. To-date the District is \$175,000 under forecast on its variable-rate-debt interest costs. With rates expected to rise later this year, reducing the forecast by \$200,000 to \$7.6 million is a reasonable estimate.

Budgets:	2016 Original Budget	Budget Amendments	2016 Amended Budget
Operations and Maintenance	\$ 18,158,000		
Water Production		\$(419,000)	1
SSA – Substitute GW for City SW		(339,000)	2
Conservation Outreach & Rebates		(150,000)	3
SJWD Consolidation Study		(100,000)	4
Reduced mass mailing		(30,000)	5
Long-Term Warren Act		200,000	6
			\$17,320,000
Capital Improvement Program	18,395,000	121,000	7
			18,516,000
Operating Capital Program	1,088,000	(114,000)	8
			974,000
Debt Service (Forecast)	7,805,000	(200,000)	9
			7,605,000
Total Budget/Forecast Costs	\$ 45,446,000	\$ (1,031,000)	\$44,415,000
12/31/16 Estimated Reserve Balance	\$45,059,477		\$44,959,477

For the Committee's review, staff has prepared three alternative analyses, including the recommended action, for consideration/discussion on potential cost saving measures for the 2016 Budget. See attached PowerPoint Slides for further details.

Fiscal Impact:

\$1,031,000 decrease to the 2016 Budget; \$100,000 decrease in cash reserves.

Strategic Plan Alignment:

Finance – 4.H. Produce and monitor an annual budget for necessary system operations, maintenance and improvements.

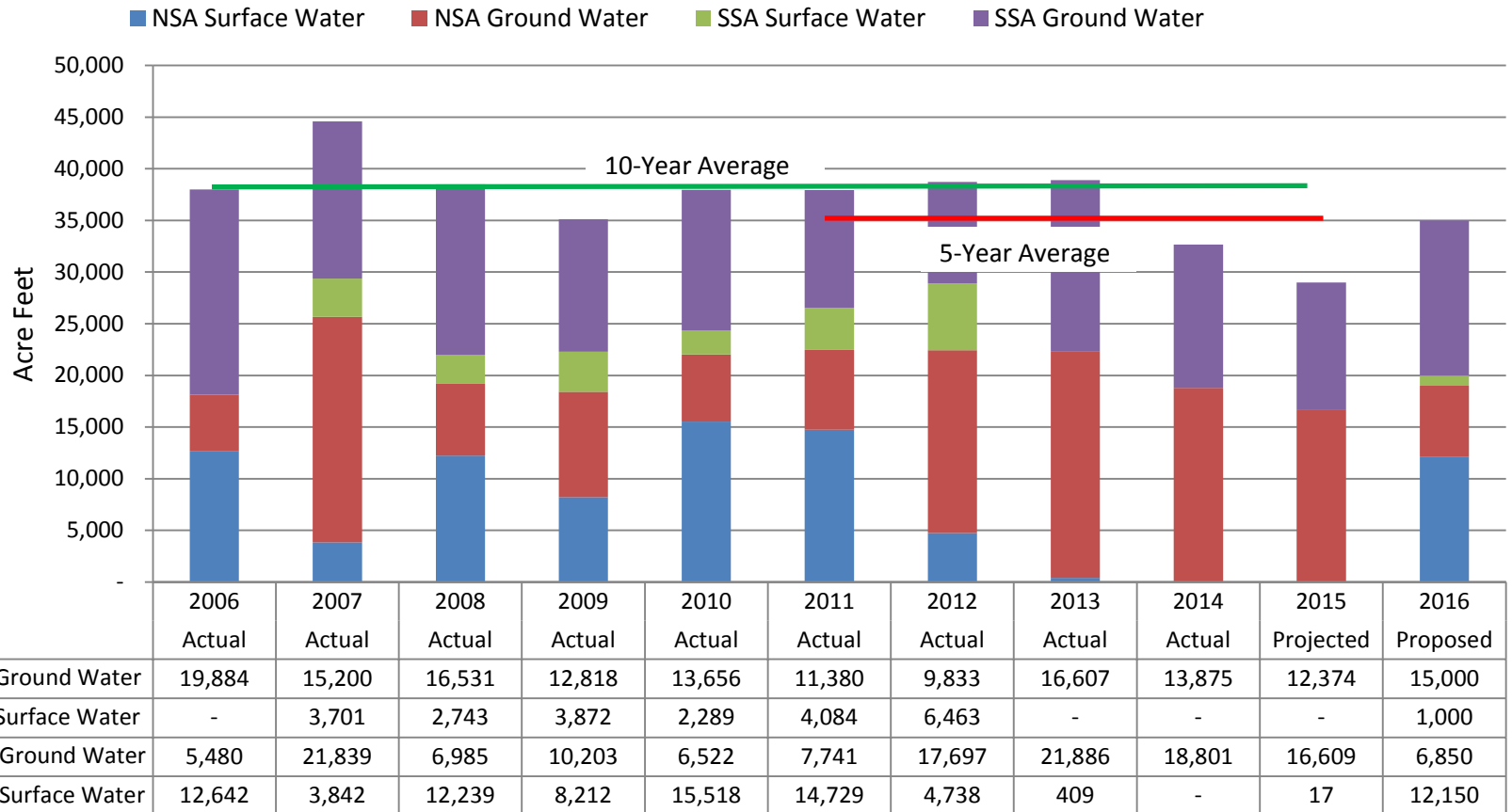
2016 Amended Budget

Finance and Audit Committee

June 13, 2016

Water Production

As Estimated at Budget Adoption



The 2016 budget assumed water deliveries of 35,000 Acre-Feet.

Water Production Revised Estimate

- Through May, Actual Production is 80% of Budget or a reduction of 2,150 Acre-Feet.
- Due in part to the removal of Drought-Emergency conservation restrictions, the District now estimates year-end water production to be 33,000 acre-feet for the year.

Revised Revenue Estimate and Sensitivity

	2016 Adopted Budget - 35,000 AF	Estimate 1 - 30,550 AF	Estimate 2 - 33,000 AF	Estimate 3 - 37,100 AF
Customer Revenue				
Income from Customers	\$ 41,270,000	\$39,994,000	\$ 40,850,000	\$ 42,284,000
Water Transfers *	1,350,000	0	0	0
Wheeling Water Charge *	278,000	560,000	560,000	560,000
Total Income From Customers	42,898,000	40,554,000	41,410,000	42,844,000
Interest Income	680,000	680,000	680,000	680,000
Other Income (Leases-Bldg, Cell Towers)	300,000	300,000	300,000	300,000
Facility Development Charges	500,000	500,000	500,000	500,000
Grant Income	1,068,000	1,425,000	1,425,000	1,425,000
Total Revenue	\$ 45,446,000	\$43,459,000	\$ 44,315,000	\$ 45,749,000
Difference		\$(1,987,000)	\$(1,131,000)	\$303,000

Estimate 1 – Assumes dry-year usage for June to December, comparative to 2015.

Estimate 2 – Assumes dry-year usage for June to December, comparative to 2014.

Estimate 3 – Assumes wet-year usage for June to December, comparative to 2013.

* All estimates assume wheeling 2,000 acre-feet to CalAm at \$280/acre-foot and no water transfers.

Revised Water Cost Estimate

	2016 Adopted Budget - 35,000 AF	Option A - 33,000 AF	Option B - No Surface Water After 6/30/16	Option C - No purchased City Surface Water	Option D - Use 75% of NSA Surface Water
Operations and Maintenance Budget					
Water Costs *	4,699,000	4,280,000	3,650,000	3,941,000	4,025,000
Difference		(419,000)	(1,049,000)	(758,000)	(674,000)

All Options assume production of 33,000 AF (2,000 AF wheeled to CalAM).

Option A – Assumes taking 12,000 AF of surface water in NSA and 1,000 AF in SSA.

Option B – Assumes taking no purchased surface water after June 30, 2016.

Option C – Assumes taking 12,000 AF of surface water in NSA and none* in SSA.

Option D – Assumes taking 9,000 AF of surface water in NSA and 1,000 AF in SSA and paying \$105,000 to PCWA for 3,000 AF not received under take-or-pay provisions.

NSA = North Service Area.

SSA = South Service Area.

AF = Acre-Feet

PCWA = Placer County Water Agency

* All Options assume receipt of 550 AF of surface water owed the District by City of Sacramento.

Revised Other Expense Estimate

	2016 Adopted Budget - 35,000 AF	Other Expenses	Difference
Operations and Maintenance Budget			
Public Outreach & Conservation	773,000	623,000	(150,000)
Other Operations & Maintenance Expenses	12,686,000	12,756,000	70,000
Total Operations and Maintenance Budget	13,459,000	13,379,000	(80,000)
Operating Capital Budget	1,088,000	974,000	(114,000)
Capital Improvement Program Budget	18,395,000	18,595,000	200,000
Debt Service Costs	7,805,000	7,605,000	(200,000)
Other Expense Costs	40,747,000	40,553,000	(194,000)

Operations and Maintenance Budget – Reductions in water conservation outreach and rebates, no San Juan WD Study, and one less mass mailing. Increase for long-term Warren Act costs.

Operating Capital Budget – Reductions in computer hardware , phones and deferral to 2017 of website upgrade and GPS Asset Locate project. Increase for Water System Master Plan costs.

Capital Improvement Program – As discussed with the Board in March 2016, \$200,000 increase is needed for the 2 Groundwater Monitoring Wells Project.

Debt Service Costs – Reduced for interest expense savings to-date.

Alternative Budget Scenarios

	2016 Adopted Budget - 35,000 AF	Option 1 - Use Surface Water As Planned	Option 2 - No purchased City Surface Water	Option 3 - No Surface Water After 6/30/16
Customer Income				
Income from Customers	\$ 41,270,000	\$ 40,850,000	\$ 40,850,000	\$ 40,850,000
Water Transfers	1,350,000	-	-	-
Wheeling Water Charge	278,000	560,000	560,000	560,000
Total Income From Customers	42,898,000	41,410,000	41,410,000	41,410,000
Interest Income	680,000	680,000	680,000	680,000
Other Income (Leases-Bldg, Cell Towers)	300,000	300,000	300,000	300,000
Facility Development Charges	500,000	500,000	500,000	500,000
Grant Income	1,068,000	1,425,000	1,425,000	1,425,000
Total Revenue	\$ 45,446,000	\$44,315,000	\$ 44,315,000	\$ 44,315,000
Operations and Maintenance Budget				
Water Costs	4,699,000	4,280,000	3,941,000	3,650,000
Public Outreach & Conservation	773,000	623,000	623,000	623,000
Other Operations & Maintenance Expenses	12,686,000	12,756,000	12,756,000	12,756,000
Total Operations and Maintenance Budget	18,158,000	17,659,000	17,320,000	17,029,000
Operating Capital Budget	1,088,000	974,000	974,000	974,000
Capital Improvement Program Budget	18,395,000	18,595,000	18,516,000	18,595,000
Debt Service Costs	7,805,000	7,605,000	7,605,000	7,605,000
Change in Reserve Balance	-	(518,000)	(100,000)	112,000
Projected Reserve (Cash) Balance - 12/31/16	\$ 45,059,477	\$44,541,477	\$ 44,959,477	\$ 45,171,477

See next slide for Option descriptions.

Alternative Budget Scenarios

(continued)

- Option 1 – assumes using 12,000 AF of surface water in the NSA and 1,000 AF in the SSA. Revenue shortfall made up solely from reserves - \$318,000.
- Option 2 – assumes using 12,000 AF of surface water in the NSA and 550 AF surface water in NSA owed to the District by the City. Revenue shortfall made up from a combination of CIP reductions and reserves.
- Option 3 – assumes no surface water in NSA or SSA except for 550 AF owed to the District by the City in the SSA.

Recommended Amended Budget

	2016 Adopted Budget - 35,000 AF	Option 2 - No purchased City Surface Water
Customer Income		
Income from Customers	\$ 41,270,000	\$ 40,850,000
Water Transfers	1,350,000	-
Wheeling Water Charge	278,000	560,000
Total Income From Customers	42,898,000	41,410,000
Interest Income	680,000	680,000
Other Income (Leases-Bldg, Cell Towers)	300,000	300,000
Facility Development Charges	500,000	500,000
Grant Income	1,068,000	1,425,000
Total Revenue	\$ 45,446,000	\$ 44,315,000
Operations and Maintenance Budget		
Water Costs	4,699,000	3,941,000
Public Outreach & Conservation	773,000	623,000
Other Operations & Maintenance Expenses	12,686,000	12,756,000
Total Operations and Maintenance Budget	18,158,000	17,320,000
Operating Capital Budget	1,088,000	974,000
Capital Improvement Program Budget	18,395,000	18,516,000
Debt Service Costs	7,805,000	7,605,000
Change in Reserve Balance	-	(100,000)
Projected Reserve (Cash) Balance - 12/31/16	\$ 45,059,477	\$ 44,959,477