

Agenda

Sacramento Suburban Water District Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Tuesday, July 10, 2018
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 916.679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Pledge of Allegiance

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. **2018 Semi-Annual Budget Update**
Receive staff report on mid-year budget status. Recommend 2018 budget amendments to the full Board for approval.

2. **2019 Draft Budget Assumptions**
Review and comment on Draft 2019 Budget Assumptions. Recommend assumptions to the full Board for approval.

3. 2018 Water Rate Study Consultant Selection

Review RFP responses and bid summary. Select and approve consultant.

Adjournment

Upcoming Meetings:

Monday, July 16, 2018 at 5:45 p.m., Financing Corporation Meeting

Monday, July 16, 2018 at 6:00 p.m., Regular Board Meeting

I certify that the foregoing agenda for the July 10, 2018, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by July 6, 2018, in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Dan York
General Manager/Secretary
Sacramento Suburban Water District



Finance and Audit Committee Agenda Item: 1

Date: July 6, 2018

Subject: 2018 Semi-Annual Budget Update

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Staff seeks Committee comments and direction. Recommend for full Board review as an information item at the July 16, 2018 Board meeting.

Discussion:

Referring to the Table on page 2, note variances from Budget to-date and those expected to occur in the second half of 2018. Expenditures may exceed Budget by \$489,000, but at this point staff is reallocating cost increases within the approved Budget. Unbudgeted revenue is expected to increase by \$1,305,000 and, due to the refinancing of the 2009B Bond, debt service expenditures will be \$135,000 less than budgeted. In summary, Operations and Maintenance (O&M) costs are expected to be less than Budget by \$356,000, Capital Improvement Plan (CIP) Budget may increase by \$1,020,000 (see Item 4 below), and, as mentioned above, the Debt Service Budget will decrease by \$135,000.

A number of variances to the 2018 Budget have occurred or are expected to occur by year-end. The financial impact of the following events is illustrated in the Table on page 2:

1. Due to availability of PCWA surface water, the District expects to wheel 2,000 Acre-Feet to Cal-American Water Company. Water wheeling revenues are expected to increase by \$535,000.
2. The recently approved 4,000 Acre-Feet (AF) water transfer is expected to bring in net revenues of \$770,000.
3. The City of Sacramento continues to increase its selling price for surface water, thus staff recommends not taking the budgeted 1,000 AF of surface water from the City and instead substitute with ground water. Expected net savings from using ground water over surface water in the South Service Area is roughly \$356,000.
4. The District expects an increase of roughly \$1,020,000 for certain CIP projects in 2018 as a result of - 1) due to Division of Drinking Water permitting requirements for

the Edison Meadow main replacement project, bids came in \$460,000 above budget; 2) a \$200,000 change order was needed for the Parkland Estates project (to avoid a County paving project); 3) projects related to County paving came in \$260,000 above budget; and 4) Well N6A construction bid came in \$100,000 over budget.

- Due to the recent refinancing of the 2009B Bond, the District saved roughly \$320,000 in interest expense payments this year. The refinancing also changed the principal payment schedule causing principal payments to increase by \$185,000.

	<u>2018 Original Budget</u>	<u>Actual & Expected Variances</u>	<u>2018 Estimated Actual</u>
Revenue			
Income From Customers	\$ 45,020,000		
Whole Sale Water to Cal-Am Water		\$ 535,000 ¹	\$ 45,555,000
Water Transfers		770,000 ²	770,000
Total Other Income	1,465,000	-	1,465,000
Total Revenue	<u>\$ 46,485,000</u>	<u>\$ 1,305,000</u>	<u>\$ 47,790,000</u>
Budget			
Operations and Maintenance	21,860,000		
Surface Water-City of Sacramento (-1,000AF)		(485,000) ³	
Ground Water (+ 1,000AF)		129,000 ³	21,504,000
Capital Improvement Program	19,160,000		
Edison Meadows Distribution Project		460,000 ⁴	
Parkland Estates Ph 2 Distribution project		200,000 ⁴	
County Paving Projects		260,000 ⁴	
Well N6A - Palm Avenue		100,000 ⁴	20,180,000
Operating Capital Program	1,161,000		1,161,000
Debt Service (Forecast)	7,700,000		
Increase Principal - Refunding 2009B		185,000 ⁵	
Reduce Interest - Refunding 2009B		(320,000) ⁵	7,565,000
Total Costs	49,881,000	529,000	50,410,000
Change in Reserve Balance 12/31/2018	(3,396,000)	776,000	(2,620,000)
Debt Service Reserve Fund - Refunding 2009B		(3,548,170)	(3,548,170)
Actual Reserve Balance as of 12/31/2017	45,669,205		45,669,205
Projected Reserve Balance	<u>\$ 42,273,205</u>	<u>\$ (2,772,170)</u>	<u>\$ 39,501,035</u>

Fiscal Impact:

Potentially, O&M and Debt Service Budget decreases of \$356,000 and \$135,000, respectively; \$1,020,000 increase to the 2018 CIP Budget; \$776,000 increase in cash reserves.

Strategic Plan Alignment:

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

A budget process benefits District customers as it forms the basis for organization and control of District financial resources. It also aids in making advance decisions regarding the efficient use of rate payer funds.



Finance and Audit Committee Agenda Item: 2

Date: July 6, 2018

Subject: 2019 Budget Assumptions

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Proposed 2019 key Budget¹ assumptions are attached on slide 8. Staff seeks Committee input and direction. Recommend 2019 Budget Assumptions to the full Board for approval.

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 Budget 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 is adopted for the first year, and a “forecast” for the second year for Operations and Maintenance expenditures. For Capital Improvement Projects and Operating Capital Budget projects a 2 year budget is to be approved.

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).

2019 Budget Assumptions

Finance & Audit Committee
July 10, 2018

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.

2019/20 Budget Development Process

- Finance and Audit Committee – 07/10/18, 4:00 pm
 - Consider Budget Assumptions; Provide Direction to Staff
- July Board Meeting – 07/16/18, 6:00 pm
 - Approve Budget Assumptions; Provide Direction to Staff
- August Board Meeting – 08/20/18, 6:00 pm
 - Status Report; Provide Direction to Staff
- Board Workshop – 09/10/18, 6:00 pm
 - First Draft Presentation; Provide Direction to Staff
- September Board Meeting – 09/17/18, 6:00 pm
 - Second Draft Presentation; Provide Additional Direction to Staff
- October Board Meeting – 10/15/18, 6:00 pm
 - Budget Approval

2019 Budget Process

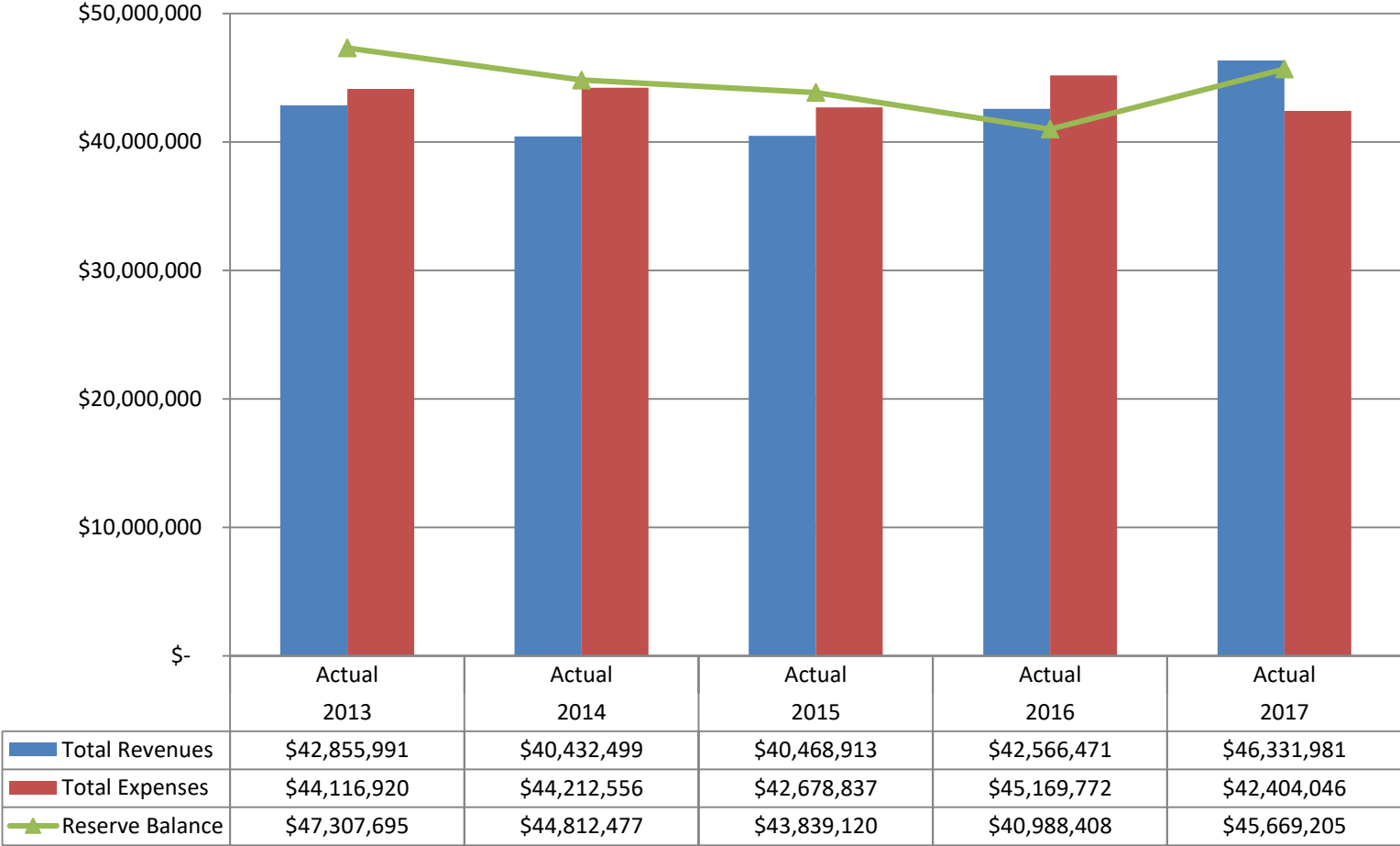
- Two Year Planning Process
 - Revenue and Expenses Projected over a 2 Year Horizon
- O&M Budget
 - Budget Adopted for First Year
 - Forecast Provided for Second Year
- CIP and OCB Projects and Budget
 - Approved for 2 Year Period

2018 Budget

	<u>2017 Actual</u>	<u>2017 Amended Budget</u>	<u>Actual As Of 06/30/18</u>	<u>2018 Projected</u>	<u>2018 Approved Budget</u>
Water Sales Charge	\$ 12,543,644	\$ 11,952,000	\$ 4,835,202	\$ 13,536,000	\$ 12,489,000
Water Service Charge	6,365,984	7,146,000	3,132,895	5,936,000	6,752,000
Capital Facilities/Debt Repayment	23,498,931	22,977,000	11,910,762	24,441,000	24,557,000
Wheeling Water Charge	675,830	633,000	164,600	710,000	175,000
Other Charges for Services	1,077,174	1,018,000	496,694	1,060,000	1,047,000
Income From Customers	44,161,563	43,726,000	20,540,153	45,683,000	45,020,000
Water Transfers	-	1,992,000	-	770,000	-
Interest Income	494,946	820,000	353,702	531,000	899,000
Other Income (Leases, Cells, Etc.)	452,653	250,000	105,047	266,000	266,000
Facility Development Charges	135,073	500,000	116,284	300,000	300,000
Grant Income	1,087,746	210,000	-	-	-
Total Other Income	2,170,418	3,772,000	575,033	1,867,000	1,465,000
Total Revenue	<u>\$ 46,331,981</u>	<u>\$ 47,498,000</u>	<u>\$ 21,115,186</u>	<u>\$ 47,550,000</u>	<u>\$ 46,485,000</u>
Budgets:					
Operations and Maintenance	20,174,258	21,311,000	8,851,955	21,504,000	21,860,000
Capital Improvement Program	13,585,527	16,975,000	6,092,316	19,160,000	19,160,000
Operating Capital Program	1,135,278	1,166,000	309,764	1,161,000	1,161,000
Debt Service (Forecast)	7,509,550	7,770,000	1,474,077	7,565,000	7,700,000
Total Costs	42,404,613	47,222,000	16,728,112	49,390,000	49,881,000
Refunding 2009B			(3,548,170)		
Change in Reserve Balance	3,927,368	276,000	838,904	(1,840,000)	(3,396,000)
Reserve (Cash) Balance	<u>\$ 45,669,205</u>	<u>\$ 41,264,408</u>	<u>\$ 46,582,244</u>	<u>\$ 43,829,205</u>	<u>\$ 41,566,409</u>

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

Total Revenues Vs Total Expenditures 2013 to 2017



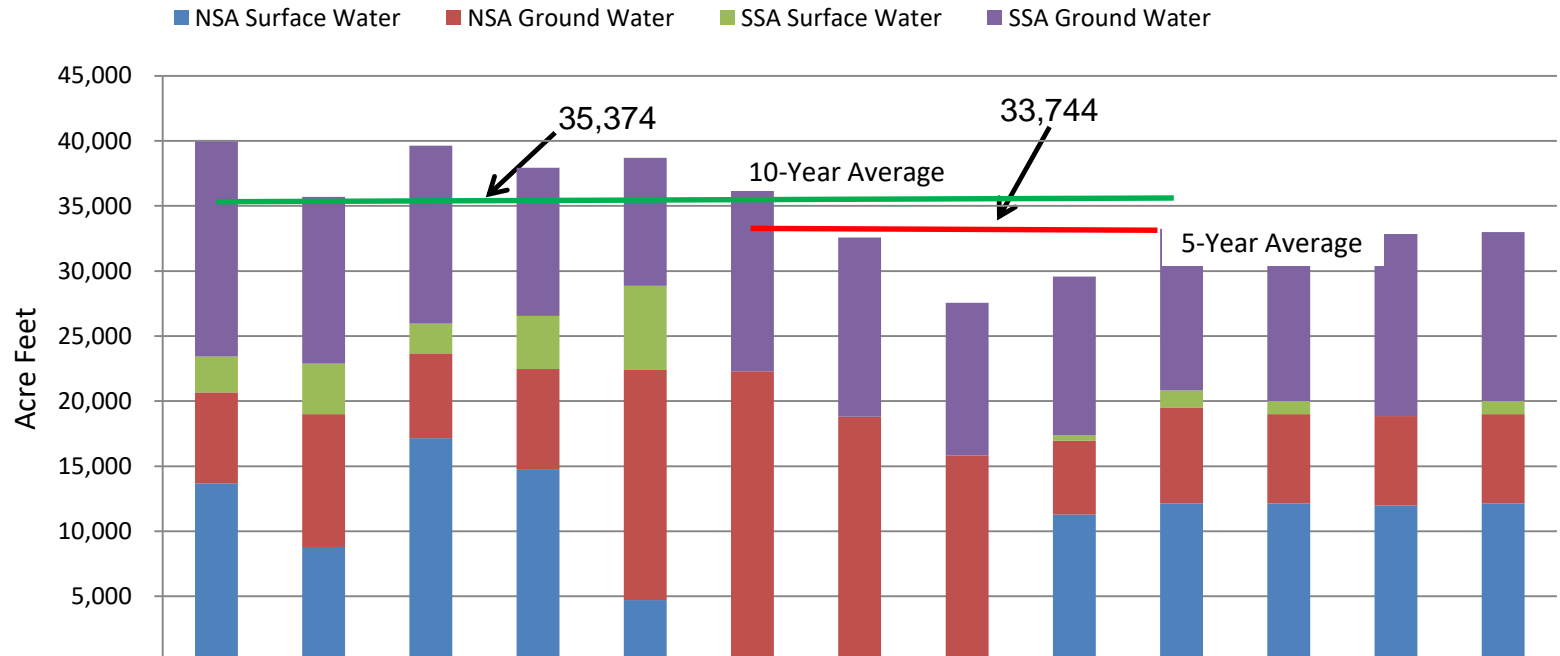
2019 Budget Assumptions

Sacramento Suburban Water District Budget Assumptions

Key Assumptions	2017		2018		2019	
1 Rate Increase	4.00%	\$1,700,000	4.00%	\$1,800,000		
2 No Change in SSWD Service Boundaries						
3 New Service Connections (Growth)	Increase	0.52%	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>
a. Water Supply Forecast Based on 5 Year Average						
b. SSA Surface Water (City)	\$ 348.60	1,000 AF	\$ 483.50	1,000 AF	\$ 483.50	1,000 AF
c. SSA Groundwater (Variable costs)	\$ 123.12	15,000 AF	\$ 128.72	13,000 AF	\$ 128.72	13,000 AF
d. NSA Surface Water (PCWA)	\$ 50.45	12,000 AF	\$ 37.14	12,000 AF	\$ 38.63	12,000 AF
e. NSA Surface Water (Bureau)	\$ 28.39	12,000 AF	\$ 22.26	12,000 AF	\$ 23.37	12,000 AF
f. NSA Surface Water (SJWD Treatment)	\$ 161.92	12,150 AF	\$ 176.49	12,150 AF	\$ 192.37	12,150 AF
g. NSA Groundwater (Variable costs)	\$ 111.08	6,850 AF	\$ 117.00	6,850 AF	\$ 117.00	6,850 AF
h. NSA Bureau 215 Water	\$ 74.55	150 AF	\$ 78.28	150 AF	\$ 82.19	150 AF
i. NSA Wheel Water to Cal-AM, RLEVWD (Revenue)	\$ (337.05)	1,935 AF	\$ (356.14)	2,000 AF	\$ (367.90)	2,000 AF
5 Anticipated Outside Water Sales, Net		None	\$ 770,000	4,000 AF	?	?
6 Investment Yield		2.00%		2.00%		2.00%
7 Variable Debt Interest Rate		3.86%		3.86%		3.86%
8 Electrical Cost Increase		2.50%		2.50%		2.00%
9 COLA (As of May 31)		0.70%		3.00%		3.70%
10 Merit Program		3.00%		3.00%		4.00%
11 Construction Inflation (B)		2.80%		3.00%		3.50%
12 Health Care Cost (C)		-2.00%		2.33%		-2.00%
13 Tier 1 Pension Cost (% of Salaries)	\$373,000	21.50%	\$ 470,000	22.37%	\$ 582,000	23.00%
14 Tier 2 Pension Cost (% of Salaries)	\$ 7,500	16.10%	\$ 12,500	16.64%	\$ 18,000	17.10%
15 Tier 3 Pension Cost (% of Salaries)	\$ 200	6.90%	\$ 500	7.30%	\$ 900	7.30%
16 New Hires		4		2		3
17 Funding of Post Retirement Benefits		\$ 472,200		\$ 560,000		\$ 580,000
Footnotes:						
(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



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018	2019
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Project ed	Propos ed
SSA Ground Water	16,531	12,818	13,656	11,380	9,833	16,607	13,771	11,719	12,185	12,427	13,000	14,000	13,000
SSA Surface Water	2,743	3,872	2,289	4,084	6,463	-	-	-	423	1,301	1,000	-	1,000
NSA Ground Water	6,985	10,203	6,522	7,741	17,697	21,886	18,790	15,702	5,678	7,364	6,850	6,850	6,850
NSA Surface Water	13,697	8,799	17,150	14,729	4,705	409	11	131	11,289	12,146	12,150	12,000	12,150

Production amounts for 2018 – Per Budget - 33,000 AF; Projected Actual – 32,850 AF.
 Production estimate for 2019 – Recommend - 33,000 AF (See option 3 on next slide).

2019 Water Production Budget Options

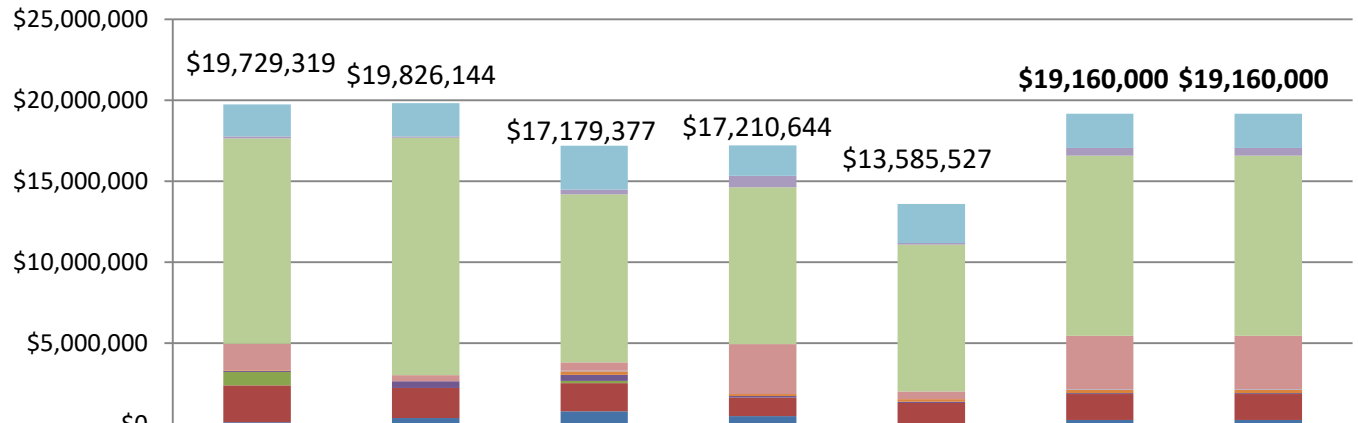
	Average	Average	2018	2018	2019 Options			
	<u>Prior 10 Years</u>	<u>Prior 5 Years</u>	<u>Budget</u>	<u>Projected</u>	1	2	3	4
SSA Ground Water	13,093	12,965	13,000	14,000	13,093	12,965	13,000	14,000
SSA Surface Water	2,118	1,637	1,000	-	2,118	1,637	1,000	-
NSA Ground Water	11,857	13,430	6,850	6,850	11,857	13,430	6,850	19,000
NSA Surface Water	8,307	5,712	12,150	12,000	8,307	5,712	12,150	-
Total Production	<u>35,374</u>	<u>33,744</u>	<u>33,000</u>	<u>32,850</u>	<u>35,374</u>	<u>33,744</u>	<u>33,000</u>	<u>33,000</u>

Options:

1. Assumes Average of Prior 10 Years.
2. Assumes Average of Prior 5 Years.
3. Same as 2 above, but with full allotment of NSA surface water.
4. Same as 3 above, but Groundwater only.

CIP Budget

CIP Project Costs 2013 to 2018



	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Projected	2018 Budget
Meter Retrofit AMP	1,961,709	2,060,561	2,691,361	1,880,514	2,399,132	2,100,000	2,100,000
Meter Replacement & Repair AMP	132,922	80,975	307,870	715,337	107,278	490,000	490,000
Dist. Main Replacement AMP	12,674,933	14,672,460	10,381,851	9,674,096	9,077,465	11,120,000	11,120,000
Well Replacement AMP	1,655,646	377,974	507,393	3,099,875	460,816	3,300,000	3,300,000
Transmission Main AMP	-	-	31,866	-	-	50,000	50,000
Reservoir and Booster P.S. AMP	36,373	-	221,300	116,901	160,494	200,000	200,000
Buildings and Structures AMP	-	-	-	-	-	-	-
SCADA AMP	54,245	404,802	378,687	94,243	85,495	60,000	60,000
From 2009 Water System Master Plan	833,148	-	133,676	-	-	-	-
Other Re-Occurring Annual Capital Costs	2,274,474	1,859,724	1,745,028	1,149,924	1,241,934	1,590,000	1,590,000
Other Capitalized Projects	105,869	369,648	780,345	479,754	52,913	250,000	250,000

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, October 17, 2016; April 17, 2017**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 (FDC) 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 Target Funding Level

A summary of reserve fund classifications and funding levels is shown below:

Fund Classification	Funding Level
Debt Service Reserve Fund	Determined upon bond issuance.
Facilities Reimbursement Fund	20% of FDC charges collected annually less developer payouts.
Emergency/Contingency Fund	25% of annual revenues.
Operating Fund	25% of annual operating and debt service expenditures.
Rate Stabilization Fund	50% of water consumption revenues.
Interest Rate Risk Management Fund	Accumulated earnings on short-term investments above 3.283% on the unhedged portion of variable-rate debt.
Grant Fund	Sufficient to pay for “local cost share” on all outstanding and applied-for grants.

Capital Asset Fund	Sufficient to fund CIP projects above the amount CIP funding amount anticipated at rate setting or budget preparation time.
Facilities Development Charge Fund	Remaining amounts of FDC Charges after amounts used by Facilities Reimbursement Fund expended. For new infrastructure.
Minimum Reserve Funding Target	\$40 million

500.00 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.

600.00 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.

700.00 Policy Review

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



Finance and Audit Committee Agenda Item: 3

Date: July 5, 2018

Subject: 2018 Water Rate Study Consultant Selection

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Select Consultant for the 2018 Water Rate Study (Study) and recommend to the full Board for approval.

Discussion:

In April 2018, the Committee reviewed and recommended the Scope and Schedule outlined below to the full Board for approval, which was adopted by the Board on April 23, 2018. On May 22, 2018, the Committee reviewed and approved the Request for Proposal (RFP) and the Consultant Distribution List for the Study. Of the eight firms that received the RFP, four replied, two declined to propose and two did not respond. A copy of each proposal is attached for the Committee's review.

Approved Scope

1. Long-Range Financial Plan (5 years; 2019 - 2023)
 - Produce various operation and maintenance and capital improvement expense scenarios considering cost inflation factors expected in the drinking water industry, pending regulatory standards, and recent water quality results.
2. Water Revenue Study
 - Determine total water revenue needs of the District for years 2019 to 2023. Show and explain revenue escalation assumptions.
3. Cost of Service Study
 - Equitable allocation of revenue demands between various customer classes
4. Water Rate Structure Design
 - With or without increasing District revenues, rate design options are to be explored looking at the portion of the total revenue collected through fixed versus volume dependent rates (conservation pricing). Provide support in accordance with requirements of San Juan Capistrano case and other pertinent case law.
5. Retail Water Rates
 - Propose various customer retail rate scenarios.
6. Wholesale Wheeling Water Rates
 - Propose various wheeling rate scenarios.

7. Water Transfer Rates
 - Determine various costs of water banked and recommend per acre-foot price for transfers.
8. Facility Development Charges (Connection Charges)
 - Calculate charges as required by District regulations.

Approved Schedule

The major steps necessary to complete the Study include:

- | | |
|--|-----------------|
| 1. Prepare and distribute Request for Proposals | Complete |
| 2. Receive Proposals | Complete |
| 3. Select Consultant | |
| 4. Execute contract | |
| 5. Consultant begins study | |
| 6. Intermittent discussions with Committee and Board | |
| 7. Study completed | |
| 8. Board approval | |
| 9. 218 Hearing (optional: only if increases are necessary) | |

Staff Recommendation

Section VI of the RFP provided proposer’s with guidance as to how the selection process would be performed. The RFP indicated the proposals would be evaluated by a committee and rated on:

- Quality and adequacy of the proposal submitted in response to this RFP
- Understanding of the Study
- Experience and qualifications of the Study manager, key personnel assigned, and subconsultants
- Work Plan/Scope of Work
- Fee for completed Work*
- Accessibility and flexibility of Key Consultant staff during the Work
- Information obtained from references

*Fee may be used to distinguish between similarly qualified firms.

To-date, four staff members (General Manager, Assistant General Manager, Finance Director and Administrative Services Manager) have reviewed the proposals and rated them as follows:

HDR	Available Points	Evaluator 1	Evaluator 2	Evaluator 3	Evaluator 4	Average Score
Quality/Accuracy	10	9	9	10	9	9
Understanding	15	14	14	15	14	14
Experience/Quals	15	15	14	13	14	14
Plan & Scope	25	22	21	25	24	23
Fee	15	14	14	13	14	14
Accessibility	10	8	8	10	8	9
References	10	8	7	10	9	8
Total	100	90	87	96	92	91

REED	Available Points	Evaluator 1	Evaluator 2	Evaluator 3	Evaluator 4	Average Score
Quality/Accuracy	10	8	9	9	8	8
Understanding	15	13	13	15	14	14
Experience/Quals	15	13	13	15	14	14
Plan & Scope	25	21	22	25	23	23
Fee	15	13	12	10	13	12
Accessibility	10	8	9	10	8	9
References	10	9	9	10	9	9
Total	100	85	87	94	89	89

BWA	Available Points	Evaluator 1	Evaluator 2	Evaluator 3	Evaluator 4	Average Score
Quality/Accuracy	10	8	8	10	9	8
Understanding	15	10	11	14	13	12
Experience/Quals	15	10	14	12	12	12
Plan & Scope	25	20	21	15	20	19
Fee	15	10	9	5	8	8
Accessibility	10	6	7	10	8	8
References	10	8	9	5	9	7
Total	100	72	79	71	79	75

RAFTELIS	Available Points	Evaluator 1	Evaluator 2	Evaluator 3	Evaluator 4	Average Score
Quality/Accuracy	10	8	8	9	9	9
Understanding	15	12	11	14	14	13
Experience/Quals	15	13	14	14	14	14
Plan & Scope	25	21	21	24	24	22
Fee	15	14	15	15	14	15
Accessibility	10	7	7	10	8	8
References	10	8	9	9	9	9
Total	100	83	85	95	92	89

SUMMARY	Available Points	Evaluator 1	Evaluator 2	Evaluator 3	Evaluator 4	Average Score
HDR	100	90	87	96	92	91
REED	100	85	87	94	89	89
BWA	100	72	79	71	79	75
RAFTELIS	100	83	85	95	92	89

With the scoring being very close for three of the four firms, staff has no strong recommendation for recommending a single firm from the top three proposers. Therefore, staff recommends the Committee, and ultimately the Board, select between HDR Engineering, Raftelis and the Reed Group.

Fiscal Impact: \$60,000 is the approved budget for the Study. Actual cost of Study will be between \$77,580 to \$88,220 depending on the firm selected.

Strategic Plan Alignment:

Finance – 4.B. Establish rates and connection fees that are fair, reflect the cost of service, encourage conservation, are simple to understand, and meet the District’s revenue requirements, including bond covenants.