

Exhibit A



Sweetwater Springs Water District

Annual Operating & Capital Improvement Budget

2020-2021 Fiscal Year
(For the period July 1, 2020 - June 30, 2021)

Board of Directors

Richard Holmer, President
Sukey Robb-Wilder, Vice President
Gaylord Schaap, Financial Coordinator
Tim Lipinski
Larry Spillane

General Manager
Ed Fortner

Sweetwater Springs Water District
 Annual Operating & Capital Improvement Budget
 2020-2021 Fiscal Year
 Summary

In Fiscal Year 2020-2021 (FY 20-21) Sweetwater Springs Water District has budgeted operating expenses of \$2.674 million, debt repayment of \$1.05 million, capital improvement expenses of \$1.351 million and transfers to the capital reserve of approximately \$250,000. Figures 1 and 2 respectively show the distribution of these expenses and sources of funds to pay for these expenses.

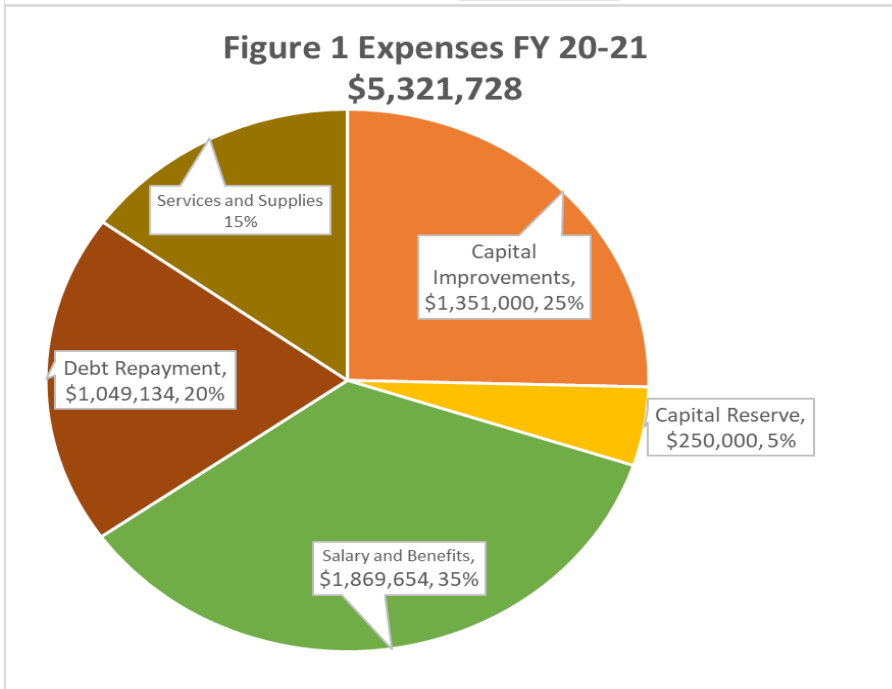
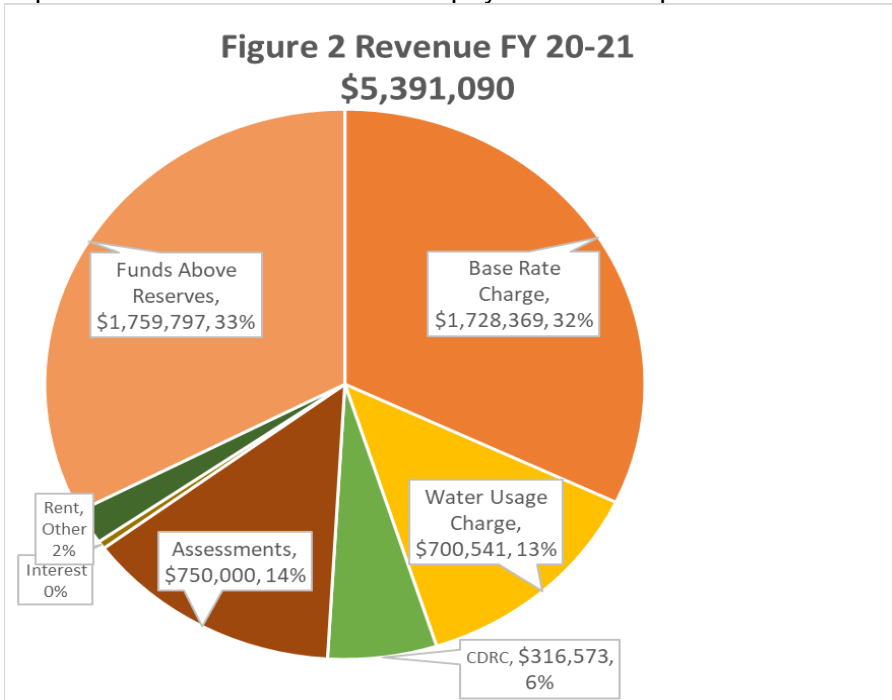


Table 1 is a summary of the FY 20-21 Budget which is described in detail in the following pages. The FY 20-21 Budget is similar in form and content to prior years' budgets. The FY 20-21 Budget includes 5% increases for the Base Rate and Water Usage Charges and a 5% increase to the Capital Debt Reduction Charge which are designed to develop sustainable capital project funding. These rate increases are recommended in the 2020 Bartle and Wells Rate Study.

Table 1									
FY 2020-21 OPERATING BUDGET SUMMARY									
					FY 18-19 FINAL (CASH)*	FY19-20 BUDGET	FY 19-20 Projected	FY 20-21 BUDGET	Difference FY21-F20 Budgets
REVENUE									
OPERATING REVENUE									
	4031 - Water Bill Revenue								
	4031.1. - Capital Debt Reduction Charge				278,867	296,383	301,498	316,573	20,190
	4031.1. - Water Sales - Base Rate				1,585,609	1,644,824	1,646,066	1,728,369	83,545
	4031.1. - Water Sales - Usage Charges + Other				647,749	633,846	667,181	700,541	66,695
	4031.1. - Total Water Sales				2,512,225	2,575,053	2,614,745	2,745,483	170,430
	Total OPERATING REVENUE				2,512,225	2,575,053	2,614,745	2,745,483	170,430
	Total NON-OPERATING REVENUE				140,206	124,500	641,795	638,310	513,810
	Total Income				2,652,431	2,699,553	3,256,540	3,383,793	684,240
EXPENSES									
OPERATING EXPENSES									
SALARY & BENEFITS									
	Total Salary				945,403	1,006,403	959,344	945,000	(61,403)
	Total Benefits				425,770	514,368	890,151	926,654	412,286
	Total SALARY & BENEFITS				1,371,173	1,520,771	1,849,495	1,871,654	350,883
SERVICES & SUPPLIES									
	Total SERVICES & SUPPLIES				576,488	620,630	832,364	801,940	181,310
	Total OPERATING EXPENSES				1,947,661	2,141,401	2,681,859	2,673,594	532,193
OPERATING SURPLUS/DEFICIT									
	Total FIXED ASSET EXPENDITURES				44,506	24,000	15,000	83,500	59,500
	Total TRANSFERS TO OTHER FUNDS				538,172	526,383	556,498	626,573	100,190
	SURPLUS/DEFICIT				122,092	7,769	3,183	126	(7,643)
CAPITAL BUDGET									
REVENUE/SOURCES OF FUNDS									
	TOTAL CAPITAL REVENUE				2,988,726	1,313,383	1,343,498	1,413,573	100,190
EXPENSES									
DEBT PAYMENTS									
	Gen. Obligation Bonds Principal				26,981	52,622	52,622	54,278	1,656
	Cap One Revenue Bond Principal				343,000	359,000	359,000	368,000	9,000
	State Loan Principal				131,346	135,235	135,235	139,298	4,063
	Private Placement Loan Principal				150,901	165,570	162,470	167,650	2,079
	Interest Expense				360,836	343,366	343,365	319,908	(23,458)
	TOTAL DEBT PAYMENTS				1,013,065	1,055,794	1,052,693	1,049,134	(6,660)
	2019 CIP				103,408	-	62,472	-	-
	2021 CIP							1,326,000	1,326,000
	In-House Construction Projects				67,908	25,000	25,000	25,000	
	TOTAL CONSTRUCTION EXPENSES				1,235,235	25,000	87,472	1,351,000	1,326,000
	TOTAL CAPITAL EXPENSES				2,248,299	1,080,794	1,140,164	2,400,134	1,319,340
	SURPLUS/DEFICIT				740,427	232,589	203,334	(986,561)	(1,219,150)
FUND AND LOAN BALANCES (EOY)									
	Beg Funds above District Reserve Policy					1,759,797	1,759,797	1,963,131	
	Ending Funds ab District Policy (DP)				1,759,797	1,992,386	1,963,131	976,570	
	Funds ab DP and Debt Payments				746,732	936,592	910,438	(72,564)	
	Net Capital Funding				270,054	205,589	238,805	312,439	

2020-2021 Fiscal Year (FY 20-21) Budget

The annual budget of the Sweetwater Springs Water District (SSWD) allows the District to accomplish its mission which is to provide its customers with quality water and service in an open, accountable, and cost-effective manner and to manage District resources for the benefit of the community and environment. The District achieves its mission of producing good quality water by pumping Russian River underflow from five wells – 3 located at the Guerneville El Bonita well site and 2 located at the Monte Rio well site. That water is then treated in two separate treatment facilities at the Highlands site for Guerneville and the Monte Rio well site for Monte Rio and environs and distributed through approximately 68 miles of distribution pipes and 3500 service laterals of varying lengths and stored in 26 tanks and reservoirs. This system is managed, and its operation administered by the District staff of 11 full-time employees. The District has an aggressive capital improvement program aimed at maintaining and improving the capital infrastructure to industry standards to deliver high-quality water, reduce system water losses, and maintain adequate system pressure and fire flow. The annual budget identifies the revenues and expenses that accomplish these tasks.

The FY 20-21 Budget follows the format established in prior years and includes a 5% increase to the Base Rate and Water Usage Charges, and a 5% increase to the Capital Debt Reduction Charge.

5% increase to the Base Rate, Water Usage Charges, and Capital Debt Reduction Charge: A principal source of revenues for the FY 20-21 Budget is water rates paid in bimonthly bills by District customers (Figure 2). In 2020 the District staff coordinated a Rate Study with Bartle and Wells, who conducted a comprehensive multi-year analysis to show that with small annual increases in rates the District can develop sustainable funding for needed capital projects to maintain District facilities. The financial analysis showed that annual 5% increases over the next five years should build sufficient funds available annually for capital projects, however any rate increases will be determined annually. More information on the District's water rates and a water rate calculator can be found on the District's website at www.sweetwatersprings.com.

Net Capital Funding will be approximately \$313,000. Net Capital Funding is the term used for estimating the amount of funding developed in the Operating and Capital Improvement Budget for funding capital projects (line 50 in Table 1). It is the sum of the operating budget surplus, annual assessments, CDRC, and capital interest minus total debt payments. Net Capital Funding is budgeted to increase because of decreased debt payments and reasonable operations expenses, plus the effect of the 5% water rate increase. We believe that Net Capital Funding should be at or above \$500,000 for a sustainable capital improvement program for the District.

Water sales have been flat for several years, due in part to State water conservation measures. Water use in calendar year 2019 was lower than State direction even though the required restrictions have been lifted - approximately 86% of 2013 which is the State Board base year. This is a 2.2% decrease in sales over calendar year 2018. A per capita limit of 55 gallons per capita day (gpcd) will be the new goal. In 2019, Sweetwater averaged 63.8 gpcd. We expect that water use in the coming fiscal year will be at a similar level and that a 5% rate increase will result in a 5% revenue increase.

FY 20-21 CIP (Table 1): The FY 20-21 Capital Budget includes replacement 5,400 feet of HDPE water main on Old River Rd and Woodland Drive estimated at \$1,326,000.00.

Addressing CalPERS retirement program Unfunded Accrued Liability (UAL): The FY 20-21 Budget continues to make accelerated payments for the CalPERS UAL. The Board has determined that this item needs special attention as it will continue to impact District finances for many years. The FY 20-21 final payment is \$500,000. This final payment should bring our UAL to a zero balance.

District Reserve Policy: The District Reserve Policy was approved in September 2009. The Reserve Policy allows the District to gauge its financial health and adequately plan for its future and allows ratepayers to follow this planning. The District Reserve Policy has the following components:

- Operating Budget Cash Reserve - 15% of the annual Operating Budget expenses to provide for prompt payment of operating expenses at the start of the fiscal year, \$402,279.
- Operating Reserve – 25% of the Operating Budget for unanticipated expenses for an economic downturn or other economic crisis, or for dealing with emergencies and disaster-related expenses, \$670,465.
- Debt Repayment Reserve - 25% of all payments for principal and interest on all District loans to ensure funding is available to repay existing District debt, \$262,284.
- Capital Reserve – 25% of the nominal Capital Budget of \$1 million for similar issues with the capital program, \$250,000.
- Total Reserve - \$1,585,028.

The sum of all district funds is shown in the budget as Total Reserves End of Year (EOY). This is the sum of the District discretionary funds listed in the budget at the end of the year. The difference between Total Reserves EOY and Total District Policy Reserves is Reserves Above District Policy. The District goal is to keep this number positive. The amount above the District Policy Reserve is the amount the District has for future capital projects. The Reserves Above District Policy is a good measure of where we are in funding an ongoing capital program. **For FY 20-21, District Policy Reserves are at \$1,585,028 and Reserves Above District Policy at the end of the fiscal year are expected to be \$976,570 with total reserves at \$2,552,598.**

Other assumptions used to develop the Operating section of the Budget include:

- **Water Usage and Base Rate and Capital Debt Reduction Charges will be raised 5%.**
- **Water Usage revenues are based on flat water sales and mid-year water sales projections. Thus, the FY 20-21 water usage revenues are estimated to increase by 5% over the amount projected for FY 19-20. Water sales are flat to slightly trending down and should remain so.**
- **Salaries and Retirement have been adjusted to reflect a potential 3% increase as the 2020 Union Memorandum of Understanding is being negotiated.**

Line Item Highlights of the FY 20-21 Budget:

The FY 20-21 Operating Budget provides for ongoing costs consistent with previous years' expenditures, except where identified below.

The operating budget encompasses the expenditures related to the operation, maintenance and repair of water facilities, as well as the billing, collections, accounting, fiscal management, and other overall administration.

Water Bill Revenue line items have been adjusted to reflect the 5% increases on projected sales revenue in the Base Rate, Capital Debt Reduction Charge (CDRC) and Water Usage Charges based on flat water sales revenue. The 5% water rate increase will increase District revenues by approximately \$170,000. Operating interest is continued at a relatively low amount to reflect continuing lower interest on deposited funds.

Under **Expenses, Salaries** are budgeted to decrease by approximately 6%. **Benefits** are budgeted to decrease approximately 17% over the budgeted FY 19-20 budget because of retirements and internal promotions. This reduction in benefits expense does not reflect the final \$500,000 Unfunded Liability prepayment. Salaries and Benefits are a major District expense – approximately 72% of the FY 20-21 Operating Budget expenses.

Total Supplies and Services are approximately \$181,310 more than the FY 19-20 approved budget including the \$135,000 payment to reserves for the Unfunded Liability prepayment. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and is budgeted to increase by \$28,200 for FY 19-20. **Electricity** is a big expense item, and is budgeted to be \$5,000 more than FY 19-20, and is the major expense difference in this category.

Fixed Asset Expenditures are higher than FY 19-20 because we are purchasing a truck this year. There are also substantial expenses for **Tank/Facilities Sites** to repair District tanks.

The Operating Budget has a surplus of approximately \$710,199 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Revenue Fund (CIRF) (\$270,000) Building Fund (\$15,000), In-House Construction Fund (\$25,000), and CDRC revenue (\$316,573).

The FY 20-21 Capital Budget has one major project.

Capital Interest revenue reflects expected interest rates and similar fund amounts in this coming year.

Capital Debt is a major expense item – approximately \$1.05 million and 20% of total District annual expenses in FY 20-21. The District has worked hard to keep interest rates as low as possible refinancing and restructuring the Capital One debt down from 3.6% to 2.78% to free cash flow for Capital projects. District Capital Debt includes:

- General Obligation (GO) Bonds – In 2013 the District refinanced the majority of the original G.O. bonds into USDA bonds as approved to purchase the District and make needed capital improvements. Approximately \$1,647,875 remained in

USDA bonds, refinanced to an interest rate of 2.375%. Annual payment - \$64,284, remaining principal is \$1,516,026. This will be paid off in 2054.

- In 2018 the District took out \$1,535,000 in new USDA bonds at an interest rate of 2.25%. In FY 20-21 the annual payment on this bond is \$59,682.50. Remaining principal is \$1,510,000. This will be paid off in 2058.
- Cap One Bond – The District refinanced the first 20 years of the GO Bonds in September 2013 with an interest rate of 3.6%. In FY 19-20, the District restructured the remaining payments on the bond, and as part of the restructure the interest rate was lowered to 2.78%. Paid off in 2033, under the restructure the annual payments will vary, with the FY 20-21 payment at \$513,432.11. The remaining principal is \$5,623,892.40.
- State Loans - two loans for approximately \$3 million which were approved in FY 95-96 for needed improvements. The smaller loan was paid off in September 2016; the second loan will be paid off in 2022. The annual payment is \$146,619. The remaining principal is \$282,726.61.
- Private Placement Loan. \$3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. The interest rate for this loan reset in 2018 and will be reduced from 4.75% to 3.10%, reducing the annual payment by approximately \$18,000. The annual payment in FY 19-20 is \$216,076.42. The remaining principal is \$1,603,670.33.

District Reserves and Funds and Loan Balances show the District's continuing healthy financial picture.

As discussed above reserve balances are a good measure of the health of the District's finances. For FY 20-21, District Policy Reserves are at \$1,585,028 and Reserves Above District Policy at the end of the fiscal year are \$976,570 with total reserves at \$2,552,598.

The detailed FY 20-21 Budget is included as Attachment A.