



Exhibit A

Sweetwater Springs Water District

Annual Operating & Capital Improvement Budget

2013-14 Fiscal Year

(For the period July 1, 2013 - June 30, 2014)

Board of Directors

*Richard Holmer, President
Victoria Wikle, Vice President
Tim Lipinski, Financial Coordinator*

*Sukey Robb-Wilder
Gaylord Schaap*

*General Manager
Steve Mack*

Sweetwater Springs Water District
Annual Operating & Capital Improvement Budget
2013-14 Fiscal Year
Summary

In Fiscal Year 2013-2014 (FY14) Sweetwater Springs Water District has budgeted operating expenses of \$1.6 million and capital improvement expenses of \$3.0 million. Figures 1 and 2 respectively show the distribution of these expenses and sources of funds to pay for these expenses. Note that sources of funds are enhanced by approximately \$700,000 from District Reserves for capital improvements. These Figures do not include expenses or sources of funds for construction of the 2015 CIP for which the construction contract will be awarded in FY14 but the funds not expended until FY15 (approximately \$800,000).

Figure 1. FY 2014 Expenses
Total = \$3.8 Million
(does not include FY15 CIP construction)

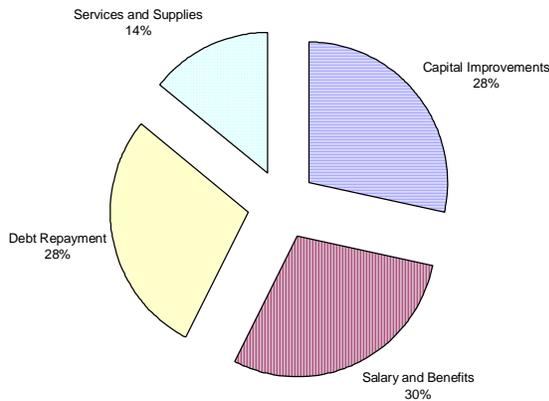
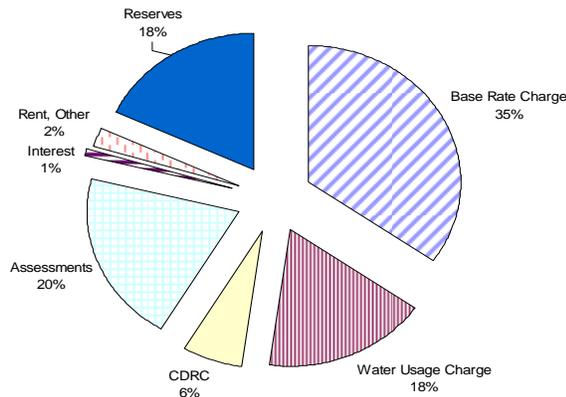


Figure 2. FY14 Sources of Funds to Pay for Expenses
Total = \$3.8 Million
\$3.1 Million Revenues + \$700,000 Reserves



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Table 1 is a summary of the FY14 Budget which is described and shown in detail in the following pages. The FY14 Budget is similar in form and content to prior years' budgets. The FY14 Budget includes the third year of 3% increases for the Base Rate and Water Usage Charges and a 3% increase to the Capital Debt Reduction Charge.

Table 1. FY14 BUDGET SUMMARY									
OPERATING BUDGET									
						FY 11-12 FINAL (CASH)	FY12-13 BUDGET	FY 13-14 BUDGET	Difference FY14-FY13 Budgets
1	REVENUE								
2	Water Bill Revenue								
3	Capital Debt Reduction Charge				236,887	230,000	245,800	15,800	
4	Base Rate Charge				1,279,036	1,248,930	1,332,100	83,170	
5	Water Usage Charge				560,823	547,620	675,100	127,480	
6	Operating Revenue				2,076,746	2,026,550	2,253,000	226,450	
7	Non-Operating Revenue				125,888	133,000	93,400	(39,600)	
8	TOTAL INCOME				2,202,634	2,159,550	2,346,400	186,850	
9	EXPENSES								
10	OPERATING EXPENSES								
11	Salary				797,615	852,696	794,590	(58,106)	
12	Benefits				271,470	295,452	316,415	20,963	
13	Salaries & Benefits				1,069,085	1,148,148	1,111,005	(37,143)	
14	Services & Supplies				460,192	485,930	520,930	35,000	
15	TOTAL OPERATING EXPENSES				1,529,277	1,634,078	1,631,935	(2,143)	
16	OPERATING SURPLUS/DEFICIT				673,357	525,472	714,465	188,993	
17	Fixed Asset Expenditures				5,841	20,000	22,000	2,000	
18	Transfers to Other Funds				516,900	490,000	675,800	185,800	
19	Disaster Expense				0	0	0	-	
20	SURPLUS/DEFICIT				150,616	15,472	16,665	1,193	
21									
22	CAPITAL BUDGET								
23	REVENUE/SOURCES OF FUNDS								
24	Assessments				730,176	777,000	777,000		
25	Capital Debt Reduction Charge				236,900	230,000	245,800	15,800	
26	Interest				36,339	25,000	25,000	-	
27	CDC Grants				672,089	914,250		(914,250)	
28	Funds from Reserves				740,169		1,525,000	1,525,000	
29	Transfers from Operations				265,000	245,000	415,000	170,000	
30	TOTAL REVENUE				2,680,673	2,191,250	2,987,800	796,550	
31									
32	EXPENSES								
33	Debt Payments				1,089,755	1,091,314	1,091,314	-	
34	Capital Expenses				1,323,072	2,836,000	1,877,149	(958,851)	
35	TOTAL EXPENSES				2,412,827	3,927,314	2,968,463	(958,851)	
36	SURPLUS/DEFICIT				267,846	(1,736,064)	19,337	1,755,401	
37									
38	FUND AND LOAN BALANCES (End of Year (EOY))								
39	DISTRICT RESERVES AND FUND AND LOAN BALANCES								
40	District Policy Reserves				1,085,081	1,131,348	1,130,812	(536)	
41	Total Reserves EOY				4,791,350	3,018,140	2,565,728	(452,412)	
42	Reserves Above (Below) Policy				3,706,269	1,886,792	1,434,916	(451,876)	

2013-14 Fiscal Year (FY14) 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 at the Monte Rio well site 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 10 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 fireflow. The annual budget identifies the revenues and expenses that accomplish these tasks.

The FY14 Budget follows the format established in prior years and includes the third year of a 3% increase to the Base Rate and Water Usage Charges, and a 3% increase to the Capital Debt Reduction Charge.

3% increase to the Base Rate, Water Usage Charges, and Capital Debt Reduction Charge: Most of the revenues for the FY14 Budget come from water rates paid in bimonthly bills by District customers (Figure 2). In 2011 District staff did 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 once the current catch up capital improvement program is completed. The financial analysis showed that annual 3% increases will build into \$500,000 available annually for capital projects. This is the third year of proposed annual 3% rate increases designed to achieve the sustainable capital improvement program.

The District had planned for a steeper increase to the Capital Debt Reduction Charge to enable it to cover all District debt payments within 3 years. However, the District decided to treat the Capital Debt Reduction Charge in the same manner as the Base Rate Charge (both are fixed rates based on meter size or number of housing units) and increase it in the same manner. 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.

FY 2014 CIP and FY 2015 CIP (Table 2): The FY14 Capital Budget includes the 2014 Capital Improvement Program (CIP), which is replacement of 3,900 lineal feet (lf) of existing main and appurtenances on Hidden Valley Rd, with 67 services, 2 fire hydrants; and 1,800 lf of existing main and appurtenances on Guerneville Lane with 20 services, 2 fire hydrants, and abandonment of 200 lf of unnecessary 4-inch main along Hwy 116.

The FY14 Budget also includes the obligation for funding construction of the FY 2015 CIP, which is replacement of 5,800 ft of existing main and appurtenances commencing at the Handy Andy Booster and proceeding westerly to the Highway 116 intersection, estimated to have a total cost of approximately \$936,000. This expense is included in

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the FY14 Budget because the construction contract would be obligated in May or June of the fiscal year. However, most of the expense will occur in FY15.

Redevelopment Support Has Ended: Because of the end of Redevelopment which supported 75% of recent District CIP funding, the annual CIP has been scaled back based on program review during this past year. The District intends to continue to improve the District's infrastructure, but the end of Redevelopment and lack of alternative grant funding means we have to do it more slowly using District Reserves.

District Reserve Policy: A formal 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:

- Budget Reserve – a reserve based on 10% of the Operating Budget expenses for emergencies, such as a natural disaster.
- Economic Reserve – 15% of the Operating Budget expenses for economic downturn or other economic crisis.
- 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.
- Capital Reserve – 25% of the nominal Capital Budget of \$1 million for similar issues with the capital program.

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, minus \$200,000 cash balance for operating purposes, 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. The Draft FY14 Budget projects that the District will have approximately \$1.4 million in Reserves Above District Policy at the end of FY14, including the obligation for the FY15 CIP. This means cash on hand in the Reserves Above District Policy will approximately \$2.2 Million at the end of FY14.

Other Financial Assumptions/Highlights of the FY14 Budget include:

- Water Sales will be flat in FY14 – our assumption is that a 3% rate increase will result in a 3% revenue increase in water sales.
- The presentation of Water Sales Revenue splits out Base Rate Charge Revenues and Water Usage Charge Revenues. This enables better tracking of the fixed revenues from the bimonthly water bills from the variable revenues based on water usage.
- Salaries are increased to match the approved Memorandum of Understanding and contracts for nonrepresented employees but also include the savings of the General Manager moving to partial retirement.
- The transfer to the Capital Improvement Revenue Fund (CIRF) is budgeted at \$390,000 in FY14.
- Approximately \$14,000 is included in the Budget to cover the District's unfunded liability for retired employee health care.

Line Item Highlights of the FY14 Budget:

The FY14 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 3% increases in the Base Rate and Water Usage Charges based on flat water sales. **Capital Debt Reduction Charge** (CDRC) revenue also includes a 3% increase. Operating interest is continued at a relatively low amount to reflect continuing lower interest on deposited funds.

Under **Expenses, Salaries** have decreased approximately \$58,000 to reflect the partial service retirement of the General Manager. **Benefits** are budgeted to increase approximately \$20,000 because of an anticipated increase in the cost of health benefits. Salaries and Benefits are a major District expense – approximately 70% of the FY14 Operating Budget expenses.

Total Supplies and Services are approximately \$35,000 higher than the FY13 approved budget. There are small increases in several line items to reflect higher costs. **Maintenance/Repair – Facilities** is a big cost item in Supplies and Services and has been increased to reflect the projected costs in FY13 which will likely be similar for FY14. **Governmental Fees** have been increased to reflect higher fees being charged by all levels of government. **Professional Services** has increased to reflect staff's estimate of realistic legal expenses. **Electric** is a big expense item and is expected to have a small increase in FY14 (\$900).

Fixed Asset Expenditures has been reduced but the District will likely carry over the expense for the purchase of a replacement chlorination system for the Monte Rio Treatment Plant.

The Operating Budget has a surplus of approximately \$677,000 which is transferred as revenue to the Capital Improvement Budget as Capital Improvement Reserve Fund (CIRF), Building Fund, In-House Construction Fund, and CDRC revenue.

The FY14 Capital Budget major expenses are the FY 2014 CIP (estimated cost \$900,000) and FY 2015 CIP (estimated cost \$900,000), described above and in Table 2.

Capital Interest revenue is estimated conservatively to reflect expected continuing low interest rates this coming year.

Capital Debt is a major expense item – approximately \$1.1 million and 28% of total District annual expenses. District Capital Debt includes:

- General Obligation (GO) Bonds – \$12 million in bonds that were approved to purchase the District and make needed capital improvements. Paid off in 2032.

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Annual payment - \$684,000. The District is investigating the possibility of refinancing these bonds with an estimated annual savings of approximately \$55,000. If possible this would not be completed prior to approval of the FY14 Budget and is not included in the Budget.

- State Loans - two loans for approximately \$3 million which were approved in 1995-96 for needed improvements. Paid off in 2021-22. Annual payment - \$170,168.50.
- Private Placement Loan. \$3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. Annual payment - \$234,012.

The Private Placement Loan of \$3 million acquired in September 2008 has been completely expended funding District capital projects (CIP IV-A and CIP IV-B).

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 FY14, District Policy Reserves are at \$1,130,812 and Reserves Above District Policy at the end of the year are \$1,434,916. This includes the obligation for the FY 2015 CIP, so actual cash on hand reserves at the end of FY14 will be approximately \$2.2 million.

Table 2. Sweetwater Springs Water District 2013-2014 Capital Improvement Program (CIP)		
Year	Projects	Estimated Cost
2014		
	Hidden Valley Rd (GV) – Replace 3,900 lf of existing main and appurtenances on Hidden Valley Rd, 67 services.	\$656,000
	Guernewood Lane (GV) - – Replace 1,800 lf of existing main and appurtenances and abandon 200 lf of redundant 4 – inch main along Hwy 116, 20 services.	\$318,000
	2014 Total	\$974,000
2015		
	Old Monte Rio Road (GV) – Replace 5,800 lf of existing main and appurtenances commencing at the Handy Andy Booster and proceeding westerly.	\$936,000
	2015 Total	\$936,000
	2014-2015 Totals	\$1,910,000