

Fiscal Year 2018-2019

Budget



Adopted June 29, 2018

Board of Directors:

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Introduction

The Hidden Valley Lake Community Services District (District) is an independent special district serving the Hidden Valley Lake Community in southern Lake County, California. The District, which consists of 12 full-time employees that provide municipal water to approximately 2,475 homes and 35 businesses, and sewer services to approximately 1,485 within its three-square mile service area.

Mission Statement

"The mission of the Hidden Valley Lake Community Services District is to provide, maintain and protect our community's water."

History

The Stonehouse Mutual Water Company was established in 1968 and supplied water to the Hidden Valley Lake subdivision. The Hidden Valley Lake Community Service District was established in 1984. A sewer system controversy led to a lawsuit between the two agencies in 1988; the suit was dismissed in the spring of 1989.

Stonehouse Mutual Water Company's problems led to discussions of a merge with Hidden Valley Lake Community Services District. It was evident that combining the two stand alone providers into one utility company would result in a tremendous cost savings for the agencies and rate payers. The merge also provided additional protection to the community via State oversight as well as access to grants and low cost loans. With the passage of AB 1504, the merger of the two utilities was accomplished on January 1, 1993 at 12:01 am.

Board of Directors

The Board of Directors of the Hidden Valley Lake CSD consists of five elected officials who are tasked with representing the general interest of those in the Hidden Valley Lake community. Directors must live within the boundaries of the water/sewer district, ensuring that they fully understand the intricacies of the community and are enlisted in services provided. Each member serves a four year term. Elections are held in November of even numbered years, and Director terms are staggered to mitigate disruption.

The Board of Directors sets goals and creates policies that guide District operations. The Board appoints a General Manager to handle the day to day operations of the District and to carry out the goals and policies. It is the General Manager's responsibility to ensure that District procedures are in line with the District's mission. Beyond the General Manager, the Board also appoints legal counsel and financial auditors.

The HVLCSD Board of Directors is committed to transparency. Board meetings are held in accordance to the Brown Act and are noticed as such. Regular board meetings are held on the third Tuesday of the month at 7:00 p.m. at the Districts business office, 19400 Hartmann Rd., Hidden Valley Lake. The board also assigns standing and ad hoc committees that meet throughout the year to assist in the development of policy. Committee meetings are also held at the District's business office; times and dates vary by committee. Each meeting ends with a call for public comment, and community members are encouraged to attend and voice concerns.

It is projected that the 2017/18 budget year will close within the approved budgeted amounts. The 2018/19 budget provides a greater level of transparency and sheds light on short falls that have not been recognized in years past. It is the desire of the District to enter into the 2018/19 fiscal year with a clear path to financial health, providing the District with the resources to improve infrastructure that is decaying due to deferred maintenance.

The 2018/19 Fiscal Budget is based on historical data from the previous three fiscal years. This provides the District with a more fact-based analysis of actual funds spent and less of a projection which can be skewed.

Revenue and Expense Trends and Forecast

Water Fund

With the scheduled rate increases in place, the Water Fund is expected to experience a minor improvement in the 2018/19 FY. However, the majority of the increase will be eaten away by the ever-increasing costs of doing business. The rate increases in recent years helped but did not completely restore the operating revenue stream nor were they designed to address regulatory requirements such as the Hexavalent Chrome or meter moratorium issues. Additionally, recent increases were not designed to address the need for an operational reserve, capital improvements, replacement of aging infrastructure or an emergency operating fund for the District. The 2017/18 fiscal year was the first time HVLCSD established an Operational Reserve Fund for water putting 7% of the monthly revenues into this account. This account is required to be funded should the District need to request a loan such as the State Revolving Fund (SRF) loan or to match with a state/federal grant such as Prop. 1 to replace the five (5) wooden water tanks that are over 50 years old or the aging water meters that are not accounting for well over 30% of the water loss which is lost revenue the District should be recovering. In the 2018/19 fiscal budget year, funding has been designated for the Water Operational Reserve Fund (3.75%) and CIP Fund (6.0%). Unfortunately, these funds fall short of what is needed to replace aging infrastructure, address the meter moratorium and prepare for future regulations such as Chrome 6, however, now that funding is being established this budget year, along with a means to guarantee a percentage is deposited into these funds annually, the District is on the path to a healthy financial future. Future rate increases must include substantial increases to the current annual percentages designated for each Water fund.

This past year, the District noted that water usage stabilized with the Governor's lifting of the drought mandate. Prior to the economic recession and drought, total District water use was approximately 25 percent higher than today. Water usage, particularly outdoor use, plummeted as homes fell into foreclosure and landscaping was left to wither. The change to zero landscape and drought tolerant plants has also stabilized. Although the number of residential water connections has rebounded and exceeded pre-recession numbers (approximately 2475 connections), the amount of water used by each connection is still below that of pre-recession/pre-drought usage while the cost of providing utility services continues to increase.

This year we noted substantial increases from PG&E, increased fuel costs based on the Governor's increased tax on gasoline and diesel fuel which also effects the cost of all commodities used to operate a utility district in such a rural area. Not only has the cost to transport items such as chlorine greatly increased but the District noted an increase in chemicals in general as well as most other goods and services from our vendors. In summary, the Water Fund revenue stream has stabilized as the reduction in water use has stabilized. Again, this year, the increase in operating costs and need to replace aging infrastructure will not be offset by the coinciding rate increases we will see July 1, 2018.

Over the last nine years, annual Water Fund operating expenses have increased by an average of 17 percent while revenue has increased only 15 percent. Additionally, there is considerable "expense wobble" between years. The wobble is partially attributable to weather, which impacts the amount of water that must be treated and delivered in any given year. Also, to be considered are the "one-time" expenses such as the Water Rights Petition Project, the meter moratorium and the Hexavalent Chromium (Cr6) issue – all of which were mandated by regulatory agencies and require substantial resources in the form of time and monies.

In summary, it is anticipated that Water Fund operating expenses will continue to steadily increase due to utility costs, infrastructure replacement needs, the ever-increasing cost of regulatory oversight and increasing costs associated with keeping qualified individuals on staff. These expenses exceed the current and projected revenue streams thus replacement projects continue to be put on hold.

Sewer Fund

Despite the fiscal hardship the Sewer Fund continues to experience, for the first time this year, the District established an Operational Reserve Fund (313) and CIP Fund (314) with 1.5% of the monthly revenues going into each account (1.5% is an estimated \$20K per year.) This \$20K per year into each account will in no way allow the District to apply for grants and/or loans on their own, however, it establishes a clear path to financial health should the Board of Directors and administrative staff choose to follow it now and, in the years, to come. Additionally, you will see a new line item in this year's budget called: 219-4115 Solar Debt Reserve (2.0% Sewer Rev). The District received incentive pay from PG&E for the installation of the solar array at the

RWRF. That incentive was in the form of money put into fund 219. This fund has been used to pay for the annual debt service for the loan to build the solar array. Currently, the District has approx. 2.4 years of payments in this account, however, a revenue stream to fund the remaining debt had not been established until this budget year. The annual debt service is just under \$33K per year. The new Solar Debt Reserve of 2.0% is expected to provide approx. \$25K per year with the remaining \$8K coming from the remaining \$80K in Fund 219, initially from the PG&E incentive. Future budget years will need to see a minor increase to this reserve to avoid a balloon payment at the end of the loan.

The early payoff of a bond in 2009 and state loan in 2016 stabilized the Sewer Fund temporarily, however, this year the District found it considerably more difficult to present a balance sewer budget. Sewer Fund revenues were blunted by the 2008 recession and with the reduction in water usage due to the drought, sewer revenue has dropped. Similar to Water Fund revenues, which are determined by the number of water connections and quantity of water delivered to each connection, sewer revenues are based on the number of connections and the individuals water usage from the previous December through March when outdoor usage is at its lowest. Accordingly, a homeowner can reduce water and sewer use and their associated costs through proper utility management. The self-managing of utilities by District constituents is impart based on the Governor's powerful message to make "...water conservation a way of life," thus reducing the revenue previously seen in the sewer fund.

From 2008 to 2016, annual Sewer Fund operating expenses increased by an average of 38 percent while revenue increased 53 percent. Unlike the Water Fund, the Sewer Fund kept up with operating expenses until now. As stated in last year's Budget Narrative, "...with the recent changes in how sewer bills are calculated, going from a flat rate to usage-based billing, the Sewer Fund will succumb to the same fate as the Water Fund over time should rates not be increased." That time is now. During the last two years, the operational costs have exceeded the annual revenue requiring reductions that are needed for capital repair projects. This is reflected in the \$10K reduction in the Repair & Replace (5150) and the minimal investment into Funds 313 and 314 which are required to replace aging infrastructure such as the sewer lines that allow rain water to enter the collection system during and following a rain event, and year-round for ground water, accounting for 50% of the water we treat at the RWRF. Additionally, like the

Water Fund, the Sewer Fund expenses tend to “wobble” between years. This year-to-year variation is becoming increasingly apparent with the increase in historic rain events and aging of the sewer system. Infiltration and inflow (I&I) of rain and ground water hydraulically overload the collection system causing Sanitary Sewer Overflows (SSO’s), increase pumping and treatment costs, lead to disposal complications, greater regulatory oversight and costly mandated repairs and modifications. Due to these issues, the Sewer Fund now suffers from the same fate as the Water Fund and similarly, without a rate increase, maintenance, repair and capital items associated with operating expenses and replacement of aging facilities cannot be funded.

Lastly, Recycled Water is a valuable resource in the fight against droughts while providing a means for our local golf course to irrigate while not depleting our ground water through the pumping and consumption of raw water. Noting that the last Recycled Water rate increase was in 2012 and rates have not been evaluated in recent years, the cost to provide Recycled Water has been included in the current NBS rate study.

Final Thoughts:

The District acknowledges that a rate increase is inevitable for a healthy and financially responsible utility provider, however, methodical replacement of infrastructure can be achieved with intelligent increases, sound financial planning, strategic partnering of grants with low interest loans and a financially stable and responsible District. To this end, the District has presented a balanced budget for the 2018/19 fiscal year with recommendation to implement any future rate increase approved by the votes through the Prop. 218 process and the governing body of this district on or as close to January 1st as possible of each consecutive year.

The intent of this implementation strategy is to implement any rate increase during the winter months when water usage is at its lowest due to cooler and rainy weather. This strategy allows the District’s constituents to self-manage water usage as temperatures gradually increase in the summer months rather than having a spike in their bill July first when water usage is much higher. This strategy empowers the District’s constituents to self-manage their water and sewer utility costs without a sudden increase during a high usage month.

Capital expenses far exceed the current and projected revenue streams thus repair/replacement projects such as the: Wooden water tank replacement; repairs to reduce I&I in the sewer system; water meters replacement (AMI); SCADA system repairs and even the purchase of a combination truck (Vac-Truck) which would greatly benefit and reduce operational costs for both the Water and Sewer Funds continue to be put on hold.

In short, the District has been on “Life Support” and this new path, along with intelligent rate increases is expected to revive the District over time, ushering in a financially responsible and health utility district.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
2018-2019 BUDGET

SEWER ENTERPRISE FUND

REVENUE	
120-1051 A/R RETIREE HEALTH	10,736
120-4020 PERMIT & INSPECTION FEES	700
120-4036 DEVELOPER SEWER FEES	-
120-4045 AVAILABILITY FEES	5,000
120-4050 SALES OF RECLAIMED WATER	125,000
120-4111 COMMERCIAL SEWER USE	22,000
120-4112 GOVERNMENT SEWER USE	700
120-4116 SEWER USE CHARGES	1,137,649
120-4210 LATE FEE 10%	25,000
120 4300 MISC INCOME	1,500
120-4320 FEMA/CalOES GRANTS	295,000
120-4550 INTEREST INCOME	600
TOTAL REVENUE	1,623,885

OPERATING EXPENSES	
120-5010 SALARY & WAGES	460,562
120-5020 EMPLOYEE BENEFITS	127,429
120-5021 RETIREMENT BENEFITS	89,000
120-5022 CLOTHING ALLOWANCE	1,800
120-5025 RETIREE HEALTH BENEFITS	21,472
120-5030 DIRECTOR HEALTH BENEFITS	40,116
120-5040 ELECTION EXPENSE	4,500
120-5060 GASOLINE, OIL & FUEL	8,000
120-5061 VEHICLE MAINT	12,500
120-5062 TAXES & LICENSE	800
120-5063 CERTIFICATIONS	1,500
120-5074 INSURANCE	22,000
120-5075 BANK FEES	13,400
120-5080 MEMBERSHIP & SUBSCRIPTIONS	6,400
120-5090 OFFICE SUPPLIES	6,000
120-5092 POSTAGE & SHIPPING	5,000
120-5121 LEGAL SERVICES	5,000
120-5122 ENGINEERING SERVICES	27,000
120-5123 OTH PROF SERVICES	50,000
INTERN/FELLOWSHIP (FUND 313)	46,000

120-5126 AUDIT SERVICES	7,500
120-5130 PRINTING & PUBLICATION	5,000
120-5135 NEWSLETTER	500
120-5145 EQUIPMENT RENTAL	14,000
120-5148 OPERATING SUPPLIES	22,000
120-5150 REPAIR & REPLACE	145,000
120-5155 MAINT BLDG & GROUNDS	5,500
120-5156 CUSTODIAL SERVICES	15,150
120-5157 SECURITY	5,000
120-5160 SLUDGE DISPOSAL	28,500
120-5170 TRAVEL & MEETINGS	1,900
120-5175 EDUCATION/SEMINARS	8,000
120-5176 DIRECTOR TRAINING	1,500
120-5179 ADM MISC EXPENSE	350
120-5191 TELEPHONE	9,500
120-5192 ELECTRICITY	45,000
120-5193 OTHER UTILITIES	2,600
120-5194 IT SERVICES	35,000
120-5195 ENV/MONITORING	32,000
120-5198 ANNUAL OPERATING FEES	2,000
120-5310 EQUIPMENT - FIELD	1,500

120-5311 EQUIPMENT – OFFICE	1,300
120-5312 TOOLS – FIEKD	1,000
120-5315 SAFETY EQUIPMENT	3,500
120-5545 RECORDING FEES	250
120-5600 CONTINGENCY	5,000
120-OPEB OBLIGATION	12,500
140-5192 ELECTRICITY – FLOOD CONTROL	2,000
219-4115 SOLAR DEBT RESERVE (2% REVENUE)	25,000
313 WASTEWATER CAPITOL RESERVE ACCOUNT (1.5% REVENUE)	20,000
314 WASTEWATER CIP (1.5% REVENUE)	20,000
TOTAL OPERATING EXPENDITURES	1,426,528

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

2018-2019 BUDGET

WATER ENTERPRISE FUND

REVENUE	
130-1051 A/R RETIREE HEALTH	10,736
130-4035 RECONNECT FEES	13,000
130-4038 COMM WATER METER CONNECTIONS	-
130-4039 WATER METER INSTALLATION	1,000
130-4040 RECORDING FEE INCOME	500
130-4045 AVAILABILITY FEES	25,000
130-4110 COMMERCIAL WATER USE	85,000
130-4112 GOVERNMENT WATER USE	6,000
130-4115 WATER USE CHARGES	1,750,000
130-4210 LATE FEE 10%	25,000
130-4215 RETURNED CHECK FEE	1,000
130-4300 MISC INCOME	2,000
130-4310 OTHER INCOME	-
130-4550 INTEREST INCOME	700
TOTAL REVENUE	1,919,936.00

OPERATING EXPENSES	
130-5010 SALARY & WAGES	460,562
130-5020 EMPLOYEE BENEFITS	127,429
130-5021 RETIREMENT BENEFITS	89,000
130-5022 CLOTHING ALLOWANCE	1,800
130-5024 WORKERS' COMP INSURANCE	-
130-5025 RETIREE HEALTH BENEFITS	21,472
130-5030 DIRECTOR HEALTH BENEFITS	40,116
130-5040 ELECTION EXPENSE	4,500
130-5060 GASOLINE, OIL & FUEL	6,500
130-5061 VEHICLE MAINT	12,500
130-5062 TAXES & LICENSE	1,200
130-5063 CERTIFICATIONS	600
130-5074 INSURANCE	25,000
130-5075 BANK FEES	13,500
130-5080 MEMBERSHIP & SUBSCRIPTIONS	24,000
130-5090 OFFICE SUPPLIES	5,000
130-5092 POSTAGE & SHIPPING	6,000
130-5110 CONTRACTURAL SERVICES	-
130-5121 LEGAL SERVICES	10,000

130-5122 ENGINEERING SERVICES	60,000
130-5123 OTHER PROFESSIONAL SERVICE	35,000
130-5124 WATER RIGHTS	70,000
130-5126 AUDIT SERVICES	7,500
130-5130 PRINTING & PUBLICATION	7,500
130-5135 NEWSLETTER	500
130-5145 EQUIPMENT RENTAL	20,000
130-5148 OPERATING SUPPLIES	1,500
130-5150 REPAIR & REPLACE	185,000
130-5155 MAINT BLDG & GROUNDS	12,000
130-5156 CUSTODIAL SERVICES	3,750
130-5157 SECURITY	5,000
130-5170 TRAVEL & MEETINGS	4,000
130-5175 EDUCATION/SEMINARS	8,000
130-5176 DIRECTOR TRAINING	1,500
130-5179 ADM MISC EXPENSE	350
130-5191 TELEPHONE	10,000
130-5192 ELECTRICITY	115,000
130-5193 OTHER UTILITIES	2,200
130-5194 IT SERVICES	35,000
130-5195 ENV/MONITORING	15,000

130-5198 ANNUAL OPERATING FEES	30,000
130-5310 EQUIPMENT - FIELD	2,000
130-5311 EQUIPMENT - OFFICE	1,000
130-5312 TOOLS - FIELD	2,000
130-5315 SAFETY EQUIPMENT	2,500
130-5505 WATER CONSERVATION	9,000
130-5545 RECORDING FEES	250
130-5600 CONTINGENCY	40,000
130-OPEB OBLIGATION	12,500
320-4115 WATER CAPITAL FUND (6% REVENUE)	115,000
325-4115 WATER OP RESERVE FUND - NEW - (3.75% REVENUE)	72,000
TOTAL OPERATING EXPENDITURES	1,734,229

Projects

The 2018/2019 budget includes several “one-time” projects. The total cost of these projects is anticipated to be \$190,000 (\$136,000 Sewer, \$54,000 Water). These projects are:

Salary Survey

The District will follow the salary survey approved in the previous fiscal year with a salary survey conducted by CPS HR Consulting; targeting the Water Resources Specialist position and “On-Call Pay” to determine if the District is providing adequately to retain current staff and recruit new staff when needed. The total cost of the study is anticipated to be below the General Manager’s limit of \$5,000 and will be split equally between the Water and Sewer funds. District staff will initiate the study early in the 2018/19 fiscal year, and results are expected within calendar year 2018.

Rate Study

The District will continue with the current rate study being conducted by NBS to determine if/when a rate increase is necessary for each of the enterprise funds (Recycled Water will be included in the study of sewer funds.) The total cost of the study was approved and funded in the 2017/18 budget. The remaining funds will be encumbered from the 2017/18 budget to pay for the remainder of this project.

Replacement of the Construction Truck

The current construction truck has seen heavy usage and due to several major mechanical issues, is no longer operational. Additionally, the crane used to pull sewer lift station pumps is non-operational and parts for this older model are no longer available. Currently, staff must rely on contracted services to pull the wastewater pumps from all eight of the District’s sewer lift stations for routine maintenance. Replacement of the Construction Truck would include the truck itself, the crane and an onboard compressor to operate pneumatic equipment such as jackhammer, digging spade and various air tools. The cost is estimated at \$130K to be pulled from the Sewer CIP Reserve 314 Fund for \$78K and Water CIP 320 Fund for \$52K.

Replacement of Headworks Rake \$62K

The rake at the headworks is an automated grate scraper used to strain rags and larger items from the incoming sanitary sewer flow and place them in a bin for disposal. The current Headworks Rack is undersized for the flows seen at the treatment plant. The additionally usage caused by the added flow necessitates the replacement of this equipment prior to total failure. A more robust unit is planned for this replacement.

Summary Descriptions

Revenue

Permits and Inspections: New connections

Charges for Services: Water and sewer services, water overage, reclaimed water sales.

Miscellaneous: Availability (providing access to water and wastewater), lease income, interest, miscellaneous.

Expenditures

Salaries and Benefits: Salaries, wages, payroll taxes, retirement, employee medical and dental, director medical.

Insurance: Liability insurance.

Office Expenses: Office supplies, printing and publication, newsletter, administrative miscellaneous, recording fees.

Contractual Services: Software, cleaning service, internet, postage meter, web hosting.

Dues and Subscriptions: Membership fees and subscriptions.

Postage: Postage.

Repairs and Maintenance: Vehicle maintenance, repair and replace, maintenance building and grounds.

Gas, Fuel, and Oil: Gasoline, fuel & oil.

Supplies: General supplies.

Professional Services: Water rights consultants, aquatic ecologist, auditor, website design.

Travel: Mileage reimbursements, lodging (not related to education or seminars).

Telephone: Landline and mobile telephone service.

Power: Electricity.

Other Operating: Debt service payments, operating revenue set aside for capital improvements.

Office and Safety Equipment: Telephones, computers, printers, AED, medical supplies and hazmat equipment.

Environmental Monitoring: Lab samples.

Water Conservation: District education program, low flow toilet rebates, high efficiency washing machine rebates.

Annual Operating Fees: Permits, water rights, Unites States Geological Services fees.

Significant Changes

Salaries and Benefits

Fiscal year 2018/19 shows an increase in salaries for some employees based on the salary survey completed by CPS HR Consulting and approved by the Board to be implemented July 1, 2018. This will be an increase in the 2018/19 budget of approx. \$105K. Additionally, benefits such as insurance and CalPERS continue to rise. A significant cause for increase is due to the District's medical insurance provider, Special Districts Risk Management Authority (SDRMA,) with an estimated 7% increase in health benefits beginning January 1, 2019. SDRMA expects to have hard numbers to its members by August of 2018, after this budget is approved. Additionally, the required California Public Employee Retirement System (CalPERS) contribution is expected to increase as well.

Insurance (Property/Liability)

The 2018/19 insurance premium reflects a significant increase of 6% as it was noted that the five wood water tanks were not previously insured.

Contractual Services

No changes are expected in contractual services for the 2018/19 fiscal year.

Repairs and Maintenance

The 2018/19 Sewer Operating budget includes a \$10,000 decrease in the Repair and Replace line item in order to bring in a balanced budget.

Professional Services

As noted under projects, the District intends to continue to work with CPS HR Consulting to complete the salary survey for the Water Resources Specialist and conduct a comparison study for "On-Call" pay at a cost of \$4,000. Additionally, the rate study conducted by NBS and approved by the Board of Directors in the 2017/18 budget at a cost not to exceed \$49,800.00 still has an outstanding balance of approx. \$32K. These funds will be encumbered to be paid for out of the 2017/18 budget for the completion of this project. Until this budget year, encumbrance of

funds is not a practice this district has been familiar with but is common practice in most utility industries.

Other Operating Expenses

For both the sewer and the water funds, the majority of costs in the Other Operating Expenses line item are related to the payment of debt [the solar loan to USDA for sewer (\$33,000 per year), and the CIEDB loan for water (\$172,767 per year)].

Office and Safety Equipment

The 2018/2019 budget will mirror the 2017/18 budget for Office and Safety Equipment line item that will cover improved security at the Administrative facility and several field facilities.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
2018-2019 BUDGET

CAPITAL EXPENSES

<u>SEWER CIP EXPENSES</u>	<u>FUND</u>	
CONSTRUCTION TRUCK (60%)	314	78,000.00
HEADWORKS RAKE	314	62,000.00
I & I REPAIR	314	55,000.00
I & I STUDY (INTERN/FELLOWSHIP)	313	46,000.00
TOTAL		241,000.00

<u>SEWER CIP REVENUE</u>		
SEWER OP RESERVE (1.5%)	313	20,000.00
FEMA/CalOES	313	102,000.00
SEWER CIP (1.5%)	314	20,000.00
FEMA/CalOES	314	193,000.00
TOTAL		335,000.00

<u>WATER CIP EXPENSES</u>		
UNIT 9 TANK REPLACEMENT	*1	1,279,000.00
REPAIR WATER MAIN LINE	*2	150,000.00
CONSTRUCTION TRUCK (40%)	320	52,000.00
TOTAL		1,481,000.00

<u>WATER CIP/OP RESERVE</u>		
WATER CAPITAL FUND (6%)	320	115,000.00
WATER OP RESERVE FUND -NEW- (3.75%)	325	72,000.00
TOTAL		187,000.00

*1 PROP 1 (50%) & SRF LOAN (50%)

*2 PROP 1 (50%) & SRF LOAN (50%)

FUND BALANCE AS OF MAY 31, 2018

313	\$ 328,249	
314	\$ 382,920	
320	\$ 92,250	New FY 17/18
325	\$ 0	New FY 18/19

Capital Additions

(Unfunded)

Sewer

Video inspection of sewer mainline

Contractor to inspect up to 20,000 feet of sewer mainline using remotely controlled video camera.

I&I (Repair sewer mainline leaks)

Contractor to repair sewer mainline leaks identified during previous video inspections and in the CivicSpark program the previous fiscal year.

SCADA System Repairs

Replace miscellaneous SCADA hardware to improve monitoring of recycled water operations. The current SCADA system was installed in 2002 and is no longer supported by the manufacturer due to improvements in hardware/software and the industry trend toward cloud SCADA systems.

Rebuild the entrance road outside the gate to the existing 4" asphalt at the Reclamation Plant.

This fund is expected to continue each year until the road to Grange Rd. is completely paved, once funds are identified.

Water

(Funds are currently not available for Capital additions in this area.)

Replacement of wooden water tanks

AMI water meter replacement

Stormwater

(Funds are currently not available for Capital additions in this area.)

Tideflex valve

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
2018-2019 BUDGET**

NON-OPERATING BUDGET

<u>DEBT SERVICE INCOME</u>	<u>FUND</u>	
TAX ASSESSMENTS, BONDS	215	283,992.25
CIEDB	130	171,374.00
USDA RUS SOLAR	120	32,245.00
BOND ADMINISTRATION	215	15,000.00
TOTAL INCOME		502,611.25

<u>DEBT SERVICE EXPENDITURE</u>	<u>FUND</u>	
RAD 1 (95-2) BOND REDEMP (INTEREST)	215	110,992.25
RAD 1 (95-2) BOND REDEMP (PRINCIPAL)	215	173,000.00
CIEDB (INTEREST)	218	63,144.00
CIEDB (PRINCIPAL)	218	102,787.00
CIEDB (ANNUAL FEE)	218	5,443.00
USDA RUS SOLAR (INTEREST)	219	16,245.00
USDA RUS SOLAR (PRINCIPAL)	219	16,000.00
BOND ADMINISTRATION EXP	711	15,000.00
TOTAL DEBT SERVICE		502,611.25

Debt

Sewer Expansion and Wastewater Treatment Plant

In 1994, the District expanded the sewer system and relocated wastewater treatment to the new Grange Road plant. Prior to the expansion, there were many vacant lots remaining in the Hidden Valley Lake subdivision that were not considered buildable. The composition of the soil would not allow proper drainage that would make septic systems a feasible option to potential builders. The expansion of the system allowed 1460 properties within the Hidden Valley Lake Association to be viable for construction.

The project was funded by four bonds and a low interest loan. Of the four bonds, three were paid off early in order to minimize interest payments. The remaining bond, the 1995-2 series bond was issued by the USDA on August 16, 1995 for \$5,500,000. The bond carried a 5.5% interest rate. This Bond was refinanced in March of 2016. At that time, the balance was 3,650,000 and currently has an interest rate of 3.25%. The remaining principal balance of the loan on June 30, 2017 was \$2,918,879.00 (Interest is not included.) The principal and interest related to the 1995-2 bond is collected annually on the property tax roll.

Water Infrastructure Project

In 2002 the District upgraded the existing water infrastructure to meet increasing demands and ensure continuity of services. The Water Infrastructure Project included the addition of two 500,000 gallon storage tanks and the replacement of two pump stations. Additionally, pressure reducing valves were replaced throughout the District to ensure adequate water pressure was provided to all customers. The District's supervisory control and data acquisition (SCADA) system was also upgraded to allow for remote control of the water and wastewater systems.

The Water Infrastructure project was funded by the California Infrastructure and Economic Development Bank (CIEDB) via a low interest loan. The District borrowed \$3,000,000 on June 24, 2002 at 3.48%. The loan is set to mature in 2032, and the remaining balance is \$1,913,810. Loan payments were intended to be funded by new connections the water system, but with the economic downturn, and subsequent decline in new construction, annual loan payments are now made from the operating budget.

Solar Project

In an effort to mitigate anticipated increases in the cost of energy, the District installed a photovoltaic (PV) project at the Wastewater Treatment Plant. The PV went online in December 2011. The array was designed to meet the full demands of the Treatment facility, and the savings to the District have exceeded original estimates. The District is now exploring the idea to extend this cost savings to sewer lift station 1 and the stormwater pump station as they are on contiguous properties with the PV.

The project was funded by the United States Department of Agriculture (USDA) via an \$885,000 grant and a \$640,000 low interest loan. Additionally, the District received \$200,000 in PG&E rebates for the project (to be paid over a five-year period). The USDA loan was signed on October 1, 2011 in the amount of \$640,000 at 3% interest. The outstanding balance of the loan is \$565,000 and the loan will mature in 2041. Annual loan payments of \$32,245 were said to be made from the operating budget from surplus funds remaining after electricity is paid. Historical review of past budgets suggest that loan payments have been paid out of the initial \$200,000 PG&E rebate provided the District. Currently that fund has a balance of approx. \$80,000. The 2018/19 budget has a new line item (219-4115) where \$25,000 of the budget will be used to pay for most of the annual loan payment. The remaining \$7,245 will continue to be paid for out of the PG&E rebate the district holds in Fund 219. As the District becomes more financially sound and this loan approaches maturity, additional funds may need to be budgeted into 219-4115.

Closing Thoughts:

The goal is to manage the District's assets in a fiscally responsible manner while planning for the repair and replacement of aging infrastructure and equipment. Old equipment should be depreciated annually, while Capital Reserve funds are used to repair and replace distressed infrastructure and equipment.

A minimum of six (6) months Operational Reserve funds should be in place to allow the District to continue to operate and rebuild in the event of a catastrophic event such as wildfire or earthquake.

The 2017/18 budget year was the first-year funds were put into the new Water CIP (320) fund. The 2018/19 Budget Year will usher in several more firsts for HVLCSO. This year HVLCSO will see money going into three additional accounts: Water Operational Reserve (325), Wastewater Operational Reserve (313) and Wastewater CIP (314). Each will see a relatively small deposit over the fiscal year, however, it sets precedence which the District is strongly encouraged to follow and increase whenever possible.

These funds pave the way for the District to obtain grants and loans as the District will improve its financial posture when viewed by grant administrators and lenders.

The final escalation of the five-year rate increase, which is currently in place, is scheduled for July 1, 2019 for the fiscal budget year 2019/20. This rate increase considered operational costs such as increases in insurance and projected costs to do business. It did not consider the fuel tax (\$0.30 per gallon for diesel) which affects all deliverables (chlorine, fuel, chemicals, dry goods etc.) that the District requires to operate. Additionally, replacement costs for the five wooden water tanks (which turned 50 years old in 2018), transitioning water meters to AMI and the financial software upgrades that are required, replacement of failing water and sewer mains (I&I), replacement of aging vehicles and equipment, the necessary modifications to the stormwater outlet valve and an aging SCADA system were not factored into the previous rate study. Due to these factors, the current rate study does not meet the operational and financial obligations of the District. The District is currently conducting a new rate study that takes many of these factors into consideration.

HVLCSO intends to provide greater transparency of its financial obligations and position using the new Website (www.hvlcsd.org). Communicating the District's financial short comings and successes related to infrastructure and equipment, repair/replacement so the public may better choose the direction of their water, wastewater and recycled water utility now and in the future through the Prop. 218 process.