

***Fiscal Year 2013-2014***

***Budget***



***Approved July 16, 2013***

***Board of Directors:***

*Judy Mirbegian, President*

*Jim Freeman, Vice President*

*Carolyn Graham*

*Linda Herndon*

*Jim Lieberman*

***General Manager:***

*Roland Sanford*

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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, provides municipal water to approximately 2,300 homes and 20 businesses, and sewer services to approximately 1,600 within its three square mile service area.

### **Mission Statement**

The mission of the Hidden Valley Lake Community Services District is to manage the natural resources with which the District is entrusted, to provide reliable, safe, high quality water and wastewater services in an economically and environmentally responsible manner

### **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. 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 or 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 odd 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.

## **Revenue and Expense Trends and Forecast**

### **Water Fund**

The Water Fund has experienced a dramatic fiscal reversal from the mid 2000's. Prior to the economic recession, water revenues were actually greater – by approximately \$300,000 – than today. The rate increases in recent years helped but did not completely restore the operating revenue stream to pre-recession levels.

Most, if not all, of the revenue decline is attributable to changing water use patterns. Prior to the economic recession, 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. Although the number of residential water connections has rebounded and returned to pre-recession numbers (approximately 2250 connections), the amount of water used by each connection has declined. In summary, the Water Fund revenue stream has declined because the reduction in water use was not completely offset by the coinciding rate increases.

Over the last nine years annual Water Fund operating expenses have increased by an average of two percent. However, 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. But also, and generally to a greater degree, by the occurrence of comparatively expensive “one-time” projects, such as the ongoing Water Rights Petition Project or the recently completed Source Water Capacity investigation – both of which were mandated by regulatory agencies.

In summary, it is anticipated that Water Fund operating expenses will continue to steadily increase, at least in tandem with the increasing cost of living, and will increasingly exceed the current revenue stream.

### **Sewer Fund**

The Sewer Fund has also experienced a fiscal reversal – from negative to positive. Sewer Fund revenues were blunted by the recent economic downturn, but not nearly to the extent experienced by the Water Fund. Unlike 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, without regard to the quantity of sewage generated. Accordingly, a homeowner can reduce water use and their associated water costs, but as long as they occupy their house – irrespective of economic conditions - they will continue to pay the same rate for sewer service.

Over the last nine years annual Sewer Fund operating expenses have increased by an average of 1.5 percent. Although the Sewer Fund expenses tend to “wobble” between years, the year-to-year variation is somewhat muted in comparison to the Water Fund, because historically there have been fewer and generally less costly “one-time” sewer projects, and because prevailing weather conditions generally have less influence on sewer operating costs. Unlike the situation with the Water Fund, the recent sewer rate increases have been sufficient to offset, at least in the short term, the associated operating expenses.

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

2013-2014 BUDGET

**DRAFT VERSION 8**

**SEWER ENTERPRISE FUND**

	<b>2012/2013</b>	<b>2013/2014</b>
	<b>EST. ACT.</b>	<b>BUDGET</b>
<b>OPERATING REVENUES</b>		
Permits and Inspections	400	-
Charges for Services	1,018,600	1,010,200
Miscellaneous	21,500	15,000
<b>Total Operating Revenues</b>	<b>1,040,500</b>	<b>1,025,200</b>
<b>OPERATING EXPENDITURES</b>		
Salaries and Benefits	538,100	641,300
Insurance	14,500	19,800
Office Expenses	8,200	9,100
Contractual Services	44,900	47,600
Continuing Education	9,300	11,100
Dues and Subscriptions	5,700	6,000
Postage	700	100
Repairs and Maintenance	76,700	65,800
Gas, Fuel, and Oil	13,300	12,600
Supplies	11,500	12,000
Professional Services	72,800	48,700
Travel	700	600
Telephone	11,300	11,100
Power	17,400	20,000
Other Operating	67,200	73,500
Office and Safety Equipment	2,800	11,500
Environmental Monitoring	34,400	31,000
Annual Operating Fees	2,800	3,400
<b>Total Operating Expenditures</b>	<b>932,300</b>	<b>1,025,200</b>
<b>Operating Income (Loss)</b>	<b>108,200</b>	<b>-</b>

**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT**

2013-2014 BUDGET

**DRAFT VERSION 8**

**WATER ENTERPRISE FUND**

	<b>2012/2013</b>	<b>2013/2014</b>
	<b>EST. ACT.</b>	<b>BUDGET</b>
<b>OPERATING REVENUES</b>		
Permits and Inspections	500	300
Charges for Services	1,257,400	1,236,100
Miscellaneous	63,200	61,800
<b>Total Operating Revenues</b>	<b>1,321,100</b>	<b>1,298,200</b>
<b>OPERATING EXPENDITURES</b>		
Salaries and Benefits	517,200	654,200
Insurance	14,500	19,800
Office Expenses	8,100	9,100
Contractual Services	38,700	43,500
Continuing Education	9,200	8,400
Dues and Subscriptions	16,200	18,600
Postage	700	100
Repairs and Maintenance	82,200	68,400
Gas, Fuel, and Oil	12,600	11,800
Supplies	1,600	1,900
Professional Services	207,700	136,700
Travel	1,900	2,100
Telephone	11,300	11,100
Power	171,600	150,800
Other Operating	185,200	206,700
Office and Safety Equipment	800	10,900
Environmental Monitoring	10,900	7,100
Water Conservation	9,600	7,600
Annual Operating Fees	22,200	26,700
<b>Total Operating Expenditures</b>	<b>1,322,200</b>	<b>1,395,500</b>
<b>Operating Income (Loss)</b>	<b>(1,100)</b>	<b>(97,300)</b>

## **Projects**

The 2013/2014 budget includes several projects that are considered to be “one-time” projects. The total cost of these projects is anticipated to be \$73,000 (\$33,000 Sewer, \$40,000 Water).

### **Rate Study**

The District will be contracting a rate study to determine if/when a rate increase is necessary for each of the enterprise funds. The total cost of the study is anticipated to be \$40,000 to be split equally between the funds. District staff will initiate the study early in the fiscal year, and results are expected within calendar year 2013.

### **Cloud Service**

The District also intends to move data storage and software access to a hosted environment provided offsite by a third party (commonly referred to as a “cloud service”). Currently, District staff maintains 4 servers that hold soft copies of District documents and that run the District’s financial and data retention programs. Migrating to a cloud based service will allow the District to avoid future IT infrastructure costs and will allow staff time to be used in other areas. The service will allow access through the internet and will protect the District in the case of natural disasters.

### **Phone System**

The District is in the process of investigating an upgrade to the current phone system. The current system is more than 10 years old and is no longer supported. Staff is unable to buy new phones that will work on the current system and has been purchasing refurbished phones for the past two years. In order to avoid a disruption to customer service, staff recommends replacing the current system.

### **Habitat Survey**

In an effort to decrease the District’s required water augmentation to the Putah Creek flow, staff intends to commission a supplemental habitat survey. Staff believes that the survey will support the District’s position that the Putah Creek water supplementation has little effect on the creek’s ecosystem.

## 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, 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 13/14 shows a significant increase in Salaries and Benefits over the estimated actuals for 12/13. The most significant cause for the increase is that the 13/14 budget assumes a full headcount. In 12/13, the District saw reduced staffing levels. General Manager, Roland Sanford, came on board January 1, 2013 and was employed through a staffing agency from July 1, 2012 - December 31, 2012. The result of the non-traditional staffing overinflated the 12/13 Professional Services category, and underinflated salary, retirement, and medical benefits. Also, two other members of the full time staff were on leave for extended periods throughout the year. Also contributing to the increase, the District's medical insurance provider, Special Districts Risk Management Authority (SDRMA,) is anticipating a 10% increase in health benefits beginning January 1, 2014. Additionally, the required California Public Employee Retirement System (CalPERS) contribution has increased by 1.69% (from 19.001 to 20.691.)

### **Insurance**

The 13/14 insurance premium reflects a significant increase in the number of property and liability claims filed against the District. In fiscal years 11/12 and 12/13, the District had eight claims filed. Between fiscal years 03/04 and 10-11, there were only three claims.

### **Contractual Services**

In an effort to increase the reliability the financial and records retention systems, the District will be migrating to a cloud based system. On a cloud system, the District's programs and information are hosted by a secure provider offsite. This service will allow for the District to avoid future IT infrastructure costs, as on-site servers will be eliminated. The cloud service will allow for increases reliability and greater protection from natural disasters.

### **Repairs and Maintenance**

The 2013/2014 Water Operating budget includes a \$20,000 decrease in the Repair and Replace line item. As there is very little money available for capital improvements in the water fund, the District has elected to allocate \$20,000 of the Repair and Replace budget for the following

capital improvement projects: prepare a revised Water Capital Improvement Plan (\$15,000,) replace three computers at the treatment plant (\$3,000,) other miscellaneous projects (\$2,000.)

### **Professional Services**

As noted in the Salaries and Benefits justification, the District's General Manager was employed by a staffing company for the period July 1, 2012 – December 31, 2012. As such, the Professional Services expense for 2012-2013 was overinflated. For fiscal year 13/14, the District will see a reduction in Professional services. On the other hand, in 13/14, the District plans to have a rate study performed for both the sewer and water funds at a total cost of \$40,000 (\$20,000 per fund.) Also included in the budget for 13/14 is a Putah Creek supplemental habitat study to determine the effect the District's required water supplementation.

### **Other Operating**

For both the sewer and the water funds, the majority of costs in the Other Operating Category are related to the payment of debt (the solar loan to USDA for sewer (\$37,500), and the CIEDB loan for water (173,000)). In 2013/2014 the category also includes an increase of \$20,000 of funds set aside from the Repair and Replace line item to cover capital improvements. (See Repairs and Replace justification for specific projects.)

### **Office and Safety Equipment**

The 2013/2014 budget includes an increase of \$15,000 to the Office and Safety Equipment line item that will cover new telephones and associated hardware at both the District's main office on Hartmann and Grange Road facilities.

*HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT*

2013-2014 BUDGET

**CAPITAL ADDITIONS**

**SEWER**

SEWER UNRESTRICTED RESERVES (JULY 9, 2013)	504,000
<b>TOTAL SEWER FUNDS AVAILABLE FOR CAPITAL PROJECTS</b>	<b><u>504,000</u></b>

**2013-2014 CAPITAL PROJECTS**

GENERATORS	90,000
REPLACE/REFURBISH PUMPS	25,000
SCADA SYSTEM UPGRADES	25,000
VIDEO INSPECTION OF SEWER LATERALS	20,000
REPAIR SEWER LATERAL LEAKS	20,000
PREPARE SEWER CAPITAL IMPROVEMENT PLAN	25,000
REPLACE 3 COMPUTERS AT TREATMENT PLANT	3,000
RESURFACE STORAGE POND ROAD	16,500
REPAIR ACCESS ROAD	12,500
<b>TOTAL SEWER CAPITAL ADDITIONS</b>	<b><u>237,000</u></b>

**WATER**

WATER UNRESTRICTED RESERVES (JULY 9, 2013)	46,000
<b>TOTAL WATER FUNDS AVAILABLE FOR CAPITAL PROJECTS</b>	<b><u>46,000</u></b>

**2013-2014 CAPITAL PROJECTS**

PREPARE WATER CAPITAL IMPROVEMENT PLAN	15,000
REPLACE 3 COMPUTERS AT TREATMENT PLANT	3,000
REPAIR WATER STORAGE TANK 1A	4,500
<b>TOTAL WATER CAPITAL ADDITIONS</b>	<b><u>22,500</u></b>

## **Capital Additions**

### **Sewer**

#### **Generators (\$90,000)**

Install backup generators at lift stations 1 and 4 to maintain ability to pump wastewater during power outages, thereby minimizing potential for spills (note: the installation of these generators was scheduled to occur prior to the close of FY 2012- 2013, the project was delayed and is now scheduled to be completed in FY 2013-2014).

#### **Replace/Refurbish Pumps (\$25,000)**

Replace or refurbish pumps at lift stations 2,3,6,7 and H to maintain ability to pump wastewater.

#### **SCADA System Upgrades (\$25,000)**

Replace miscellaneous SCADA hardware and expand SCADA system to improve monitoring of wastewater operations.

#### **Video inspection of sewer laterals (\$20,000)**

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

#### **Repair sewer lateral leaks (\$20,000)**

Contractor to repair sewer lateral leaks identified during previous video inspections.

#### **Prepare Sewer Capital Improvement Plan (\$25,000)**

Contractor to prepare Capital Improvement Plan.

#### **Replace 3 computers at treatment plant (\$3,000)**

Cost of computers to be split equally between Sewer and Water funds, each fund contributing \$3,000.

**Resurface road along top of Reclamation Plant's recycled water storage pond (\$16,500)**

Resurface the Reclamation Plant's recycled water storage pond levee crown with gravel to improve vehicular access and minimize erosion.

**Gravel access road repair (\$12,500)**

Repair two segments of gravel road between Grange Road and treatment plant to ensure all-weather access to District facilities

**Water**

**Prepare Revised Water Capital Improvement Plan (\$15,000)**

Contractor to revise 2001 Water Master Plan

**Replace 3 computers at treatment plant (\$3,000)**

Cost of computers to be split equally between Sewer and Water funds, each fund contributing \$3,000.

**Repair Water Storage Tank 1A (\$4,500)**

Repair leaks

***HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT***

2013-2014 BUDGET

NON-OPERATING BUDGET

<b>DEBT SERVICE INCOME</b>	<b>FUND</b>	
TAXES, ASSESSMENTS, BONDS	215	344,000
STATE REVOLVING FUND LOAN	217	553,000
CIEDB	218	173,018
USDA RUS (SOLAR	219	30,100
BOND ADMINISTRATION	711	21,000
BOND REVOLVING FUND	712	1,000
<b>TOTAL INCOME</b>		<b><u>1,122,118</u></b>

<b>DEBT SERVICE EXPENDITURE</b>	<b>FUND</b>	
95-2 BOND REDEMP (INTEREST)	215	229,763
95-2 BOND REDEMP (PRINCIPAL)	215	105,000
STATE REVOLVING (INTEREST)	217	58,326
STATE REVOLVING (PRINCIPAL)	217	274,203
CIEDB (INTEREST)	218	79,304
CIEDB (PRINCIPAL)	218	86,627
CIEDB (ANNUAL FEE)	218	6,836
USDA RUS (EST)	219	30,100
BOND ADMINISTRATION EXP	711	11,000
BOND REVOLVING EXP	712	-
RESERVES		240,960
<b>TOTAL DEBT SERVICE</b>		<b><u>1,122,118</u></b>

## **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 carries a 5.5% interest rate and is set to mature in 2034. The remaining balance of the loan on June 30, 2013 was \$4,230,000. The principal and interest related to the 1995-2 bond is collected annually on the property tax roll.

The low interest portion of the loan is held by the State Revolving Fund. Loan documents are dated June 15, 1994 for \$9,994,334 at 3% interest. The loan is set to mature in 2016 and has an outstanding balance of \$1,944,204. Principal and interest for the State Revolving Fund loan are collected on the annual property taxes.

### **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 to 500,000 gallon water 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 \$2,278,829. 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 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 has been approved to receive \$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 \$622,500, and the loan will mature in 2041. Loan payments are made out of the operating budget from surplus funds remaining after electricity is paid.