

# FORESTHILL PUBLIC UTILITY DISTRICT

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## BOARD OF DIRECTORS

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June 3, 2008

Foresthill Public Utility District  
Finance Committee  
Chairman, Mr. William L. Sadler, Jr.  
Committee Member, Mr. Duane L. Frink  
Staff, Kurt W. Reed

Subject: Report and Recommendation on Fiscal Year 2008-2009 Preliminary Budget and 2008-2009 Proforma Budget

Background: The District Finance Committee has been meeting since January of this year to analyze and formulate opinions on the District's current budget (2007-2008) performance and to prepare and recommend the Fiscal Year 2008-2009 Budget. This Committee realizes its responsibilities and strives to promote fiscal stability while maintaining rate payer sensitivity. The Committee's finding and recommendations to the Board of Directors are the basis of this report.

Existing Condition: District Fiscal Year 2007-2008 General Fund Budget performance through May 31, 2008 (11 months) shows revenue slightly lower than forecast (89% vs. 91.6%) and expenditures up slightly above forecast (99% vs. 91.6%) See Attachment A. Reserve funding from General Fund is less than anticipated currently at 45% of budget forecast. Reserve expenditures are at 118% through the same eleven month budget period. See Attachment B. Capital Improvement Funding is at 67% of anticipated revenues with expenditures at 107% of budget forecast. See Attachment C. One month remains of the current fiscal year which is one of the main revenue producing months, however it is not anticipated to correct the financial condition discussed in this section.

Slow economic growth (nationwide) plus high fuel, energy, materials and on going labor costs have largely contributed to the District's financial concerns. Since the District's last general rate increase (2006) inflationary indexes have been 3.3% in 2006, 3.1% in 2007, and 2008 is anticipated at 4.0%. Inflation is expected to lower slightly beginning in the summer of 2009. See Attachment D.

Analysis: This Committee completed several comparative surveys (wages – water rates – COLA) based on information obtained from local area water purveyors to help assess the District's viability in these areas. The wage and rate surveys were previously presented to the Board at the Workshop held May 5, 2008 (Attachment E & F). The recent area cost of living survey is enclosed as Attachment G. The Committee also reviewed staffing levels and efficiencies, operational cost reduction potentials (propane fuel – solar energy) and potential additional sources of revenue (standby charges – backflow and other customer requested/required inspection charges). District staff's design, installation and construction of the treated storage tanks re-plumb effort

undoubtedly reduced District costs by an estimated 200% or more vs. the competitive bid process. The tax revenue uncertainties (State tax grab) together with a slow economy and increased prices (cost of business) necessitate a proposed 10% general water rate increase.

This Committee also recognizes the necessity of collecting a Repair-Replacement Surcharge, identified separately on the monthly bill, to be placed in a “restricted account” solely for said purpose. This charge would be \$3.32 per month. This charge is computed by dividing the annual audited schedule of depreciation by the number of active customers ( $\$358,135 \div 2247 = \$13.28$ ). Said fee (\$3.32) is 25% of the computation above and should be revised and increased annually over the next four years to the desired funding level.

Please note: Attachment H – Proposed 2008-2009 Interim Budget; Attachment I – Proposed 2008-2009 Proforma Budget; and, Attachment J – Proposition 218 Notification Compliance Statement.

Recommendation: This Committee wishes to acknowledge the opinions and suggestions given by the Board of Directors during the Budget Workshop held May 5, 2008 which assisted in the preparation of this report. The following recommendations are presented to the Board of Directors for consideration and approval at the Director’s meeting to be held June 11, 2008:

I. Approve Proposed 2008-2009 Interim Budget (Attachment H) as presented. Budget does not include an increase in water rate structure and does include normal employee merit raises as applicable. Interim Budget is designed to provide financial coverage from July 1, 2008 to adoption of Proforma Budget. Said period is up to 90 days.

II. Approve Notice of Proposed Rate Increase and Repair-Replacement Surcharge for mailing and setting the date for public hearing. (Attachment J).

III. Authorize acceptance of the Proposed 2008-2009 Proforma Budget. Approval is subject to rate payer authorization as per Proposition 218 regulations (Attachment I). As presented, the Proposed 2008-2009 Proforma Budget contains the following change(s) to:

A. General Fund – Revenue and Expense

1. General water rate increase of 10% generating an anticipated revenue increase of \$159,137.
2. Establishes Repair-Replacement Surcharge initially set at 25% of depreciation costs, generating \$89,400 earmarked “restricted funds”.
3. Estimates a reduction in tax revenues of 25% (\$21,000).
4. Establishes line item expense for pipeline right-of-way clearing of \$20,000.
5. Establishes line item expense for Proposition 218 compliance cost at \$3,000.
6. Allows allocation of \$94,819 to District Reserves resulting in 42% Reserves Balance vs. Budget Expense which is less than District policy objectives of 50%.

B. General Fund – Employee Wage and Benefit

1. Increase salary range of Customer Service Representative I by 4.25% as identified by District’s 2008 Salary Survey. Fiscal Impact = \$1,325.
2. Increase Weekend On Call to 4 times the hourly rate per day (currently at 3) and Holiday On Call to 5 times the hourly rate per day (currently at 4). Fiscal Impact = \$2,875.
3. Grant cost of living raise to all District employees of 3.45% based on local area agency survey. Fiscal Impact = \$17,000.

C. Capital Reserves

1. Revenues continue a downward trend due to depressed new housing market. Planning Committee to complete its five year Capital Improvement Plan including nexus study to determine appropriate connect charge fee (Will Serve).

The Proposed Proforma 2008-2009 General Fund Budget anticipates revenues to increase 8.84% and expenditures to increase 10.07% over 2007-2008 levels. Employment costs (wages and discretionary benefits)

as a percent of total General Fund expenditures for current fiscal year 2007-2008 is 54.27% vs. 55.32% as proposed for 2008-2009.

Though there are areas of concern facing the District, the overall financial condition of the District is sound. The true costs of providing water service must be the responsibility of those utilizing such service. Given the uncertainty of tax revenues and the small revenue impact on General Fund (4.19%), it is imperative that this District sustain a viable rate base sufficient to provide for financial stability.

The Finance Committee does hereby recommend the adoption, approval and acceptance of the Proposed 2008-2009 Budget(s) contained in this report.

Sincerely,

William L. Sadler, Jr.  
Committee Chairman