



## NOTICE OF BUDGET & FINANCE COMMITTEE MEETING

Responsible for the review of District finances including: rates, fees, charges and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

**NOTICE IS HEREBY GIVEN** that the San Lorenzo Valley Water District has called a meeting of the Budget & Finance Committee to be held on Tuesday, **February 27, 2018 at 9:30 a.m.** at the Operations Building, 13057 Highway 9, Boulder Creek, California.

### AGENDA

1. Convene Meeting/Roll Call
2. Oral Communications  
*This portion of the agenda is reserved for Oral Communications by the public for items which are not on the Agenda. Please understand that California law (The Brown Act) limits what the Committee can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of this committee. Normally, presentations must not exceed three (3) minutes in length, and individuals may only speak once during Oral Communications. Any Director may request that the matter be placed on a future agenda or staff may be directed to provide a brief response.*
3. Old Business: None  
*Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.*
4. New Business:  
*Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.*
  - A. FINANCIAL SUMMARY FISCAL YEAR 2017/2018 2<sup>ND</sup> QUARTER  
Discussion and possible action by the Committee regarding the Q2 FY17/18 Financial Summary.
  - B. BEAR CREEK ESTATES WASTEWATER ENTERPRISE FINANCIAL ANALYSIS  
Discussion and possible action by the Committee regarding financial analysis of the BCE Wastewater Enterprise.
5. Informational Material: None.
6. Adjournment

***In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requires that any person in need of any type of special equipment, assistance or accommodation(s) in order to communicate at the District's Public Meeting can contact the District Office at (831) 338-2153 a minimum of 72 hours prior to the scheduled meeting.***

***Agenda documents, including materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents may also be available on the District website at [www.slvwd.com](http://www.slvwd.com) subject to staff's ability to post the documents before the meeting.***

**Certification of Posting**

I hereby certify that on February 22, 2018, I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 72 hours in advance of the meeting of the Budget & Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on February 22, 2018.

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Holly B. Hossack, District Secretary  
San Lorenzo Valley Water District

# Fiscal Year 2017/2018

## Second Quarter Financial Summary

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### Management's Discussion and Analysis (MDA)

#### Overview

This section presents management's analysis of the San Lorenzo Valley Water District's (the District) financial condition and activities as of the above mentioned period. This information should be read in conjunction with the unaudited financial information that follows. For a complete review of a fiscal year, it is best to come back and look at the audited Annual Financial Report.

The District does a hard year end close, through that process there are yearend expenses that are booked at yearend and not represented in the monthly expenses. There may also be annual expenses paid upfront that could cause individual months to appear skewed. Data is continuously being reviewed, so it is not un-common for a prior month balance to change slightly throughout the year as accounts are reconciled. It is important to understand this in connection with the numbers that follow.

#### Operations Net Results

For the three months ended December 31, 2017, the District had an operating income of \$690K. Quarterly operating revenue was \$2.3M with operating expenses of \$1.6M. This brings YTD operating income to \$866K. The first 6 months of the year typically have higher consumption and part of Q2 had the rate increase. The future quarters typically have lower operating income. It is still too early to know how the full year will shape out. We are monitoring consumption trends for how much of an impact the new rates have on customers consumption patterns. Given the poor rainfall we have had this year may play a role in future consumption as well.

#### Operating Revenue

Quarterly operating revenue of \$2.3M is in line with expectations, the majority of this Q factored in the rate increase and slightly higher than expected consumption. October, November and December had usage of 65.7K, 58.6KK and 42.7K units of water billed, respectively.

YTD (6 months) revenue of \$4.3M is in line with expectations. Q1 contains the higher consumption months, as well as Q2 factoring in the rate increase.

#### Operating Expenses

Quarterly operating expenses were \$1.6M, or 22% of the annual budget. YTD (6 months) operating expenses are \$3.5M, or 46% of the annual budget.

Q2 CY compared to Q2 PY had an increase of \$47K, or 3%. The majority of the fluctuation related to timing. However, there was ~\$50K in well repair work that was more of an unexpected expense. While money is budgeted for repairs that come up, it is not clear yet if this can be absorbed within the current budget by saving in other areas.

## Non-Operating Revenue & Expenses

Below itemizes the different non-operating revenue and expenses of the District as of Q2. Please note some of these accounts have historically had annual bookings, so transactions may have occurred that not accounted for yet herein. We are moving towards having more monthly and quarterly entries, which will eventually bring more meaning to this section.

<b>Non-operating Revenue</b>	<b>Q1 Total</b>	<b>Q2 Total</b>	<b>YTD Total</b>
Lease Reveue	\$ -	\$ 595	\$ 595
Property Taxes	54	349,129	349,183
Assessment Revenue	-	172,546	172,546
Rental Income	9,524	9,682	19,205
Interest	3,660	4,264	7,924
	<u>\$ 13,238</u>	<u>\$ 536,215</u>	<u>\$ 549,453</u>

<b>Non-operating Expenses</b>	<b>Q1 Total</b>	<b>Q2 Total</b>	<b>YTD Total</b>
Interest Expense	\$ 15,492	\$ 3,331	\$ 18,823

## Debt Obligations

Below itemizes current debt obligations of the District as of Q2. Please note some of these accounts have historically had annual bookings, so transactions may have occurred that not accounted for yet herein. We are moving towards having more monthly and quarterly entries, which will eventually bring more meaning to this section. Some of the debt obligations are solely funded from assessments and not paid out of the general fund. There will eventually be a more detailed reconciliation of debt and how it fits into cash flow.

	<b>Balance</b>			<b>Balance</b>
	<b>2017</b>	<b>Additions</b>	<b>Payments</b>	<b>2018</b>
Felton Loan	\$ 1,650,440			\$ 1,650,440
Refunding Bond	2,494,854		322,419	2,172,435
Olympia SRF Loan	1,590,784			1,590,784
Other Loans	424,321		25,241	399,080
Other Bonds	61,000			61,000
	<u>\$ 6,221,399</u>	<u>\$ -</u>	<u>\$ 347,661</u>	<u>\$ 5,873,738</u>

## Capital Projects & Expenditures

Below itemizes the Q2 capital expenditures that have been spent. Please note if any projects used in-house labor, these amounts have may not yet be allocated to the projects. In Q2 there were approximately \$230K in capital expenditures, with the majority relating to FEMA projects and Paso 5A Well. There was \$40K in environmental mitigation for the Probation Tank spent, with anticipated progress on the Probation tank in the near future.

**PROJECT LISTING OF ADDITIONS TO CIP**

PROJECT	FY1617 BALANCES	Q1 FY1718 ADDITIONS	Q2 FY1718 ADDITIONS	PROJECT TOTAL
BCEWW IMPROVEMENTS / CAP-1617001A	\$ 41,858.72	\$ 920.00	\$ -	\$ 42,778.72
PROBATION TANK / CAP-1516002A	\$ 20,267.04	\$ -	\$ 40,000.00	\$ 60,267.04
SWIM TANK DESIGN / CAP-1516003A	\$ 12,173.34	\$ 1,890.90	\$ -	\$ 14,064.24
WO 269/548 - BEAR CREEK RD MAIN RELOCATION	\$ 9,694.35	\$ 164,538.12	\$ -	\$ 174,232.47
WO 272/549 - LYON WATER TREATMENT PLANT ACCESS RD REPAIR	\$ 26,353.27	\$ 11,895.39	\$ 18,985.45	\$ 57,234.11
LOST ACRES WATER TANK PROJECT	\$ 1,906.50	\$ -	\$ -	\$ 1,906.50
BLUE TANK REPLACEMENT PROJECT / CAP-1718001A	\$ 793.00	\$ 20,500.00	\$ 206.25	\$ 21,499.25
WO 411 - FELTON METER CHANGE OUT PROJECT	\$ 105,696.63	\$ -	\$ 4,660.71	\$ 110,357.34
MANANA WOODS PRV STATION	\$ -	\$ 9,856.30	\$ -	\$ 9,856.30
LYON CLARIFIER RETURN PUMP #1 - SN 9270076	\$ -	\$ 6,825.39	\$ -	\$ 6,825.39
LYON CLARIFIER RETURN PUMP #2 - SN 9270077	\$ -	\$ 6,944.20	\$ -	\$ 6,944.20
UPPER PASO TANK FENCING	\$ -	\$ 13,839.75	\$ -	\$ 13,839.75
WO 358 - COMBINE SPRINGS RAW WATER LINE	\$ -	\$ 2,109.00	\$ 5,784.07	\$ 7,893.07
PASO 6 WELL	\$ -	\$ 3,510.00	\$ -	\$ 3,510.00
SCADA SYSTEM - DATA REDUNDANT RETROFIT	\$ -	\$ -	\$ 41,694.07	\$ 41,694.07
WO 550 - HIGHWAY 9/WESTERN AVE 6" MAIN REPAIR	\$ -	\$ -	\$ 13,635.00	\$ 13,635.00
WO 280 - FALL CREEK INTAKE FEMA	\$ -	\$ -	\$ 21,262.98	\$ 21,262.98
PASO 5A WELL	\$ -	\$ -	\$ 83,325.00	\$ 83,325.00
	<b>\$ 218,742.85</b>	<b>\$ 242,829.05</b>	<b>\$ 229,553.53</b>	<b>\$ 691,125.43</b>

FUND 01 BEG BALANCE	\$ 1,856,052.83	\$ 2,097,961.88
FUND 01 ADDITIONS	\$ 241,909.05	\$ 229,553.53
<b>FUND 01 END BALANCE</b>	<b>\$ 2,097,961.88</b>	<b>\$ 2,327,515.41</b>

FUND 02 BEG BALANCE	\$ 60,601.60	\$ 61,521.60
FUND 02 ADDITIONS	\$ 920.00	\$ -
<b>FUND 02 END BALANCE</b>	<b>\$ 61,521.60</b>	<b>\$ 61,521.60</b>

**PROJECT LISTING OF COMPLETED ASSETS**

PROJECT	FY1617 BALANCES	Q1 FY1718 ADDITIONS	Q2 FY1718 ADDITIONS	PROJECT TOTAL
VEHICLE #1 - VE-228	\$ -	\$ 674.75	\$ -	\$ 674.75
VEHICLE #2 - VE-230	\$ -	\$ 674.75	\$ -	\$ 674.75
VEHICLE #3 - VE-232	\$ -	\$ 674.75	\$ -	\$ 674.75
	<b>\$ -</b>	<b>\$ 2,024.25</b>	<b>\$ -</b>	<b>\$ 2,024.25</b>

01-000-1530 BEG BALANCE	\$ 1,029,001.35
Q1 1718 ADDITIONS	\$ 2,024.25
<b>01-000-1530 END BALANCE</b>	<b>\$ 1,031,025.60</b>

## OPERATING ANALYSIS - December 2017

### REVENUE BY CATEGORY

DESCRIPTION	COMPARING AGAINST PRIOR YEAR					COMPARING AGAINST BUDGET		
	ACTUALS	% OF TOTAL	PRIOR YEAR	\$ Diff.	% Diff.	Act. % of Budget	ANNUAL BUDGET	% of Annual
WATER USAGE	\$ 430,207	62.4%	\$ 246,375	\$ 183,832	75%	8%	\$ 5,390,000	62%
BASIC CHARGES	246,501	35.7%	303,015	(56,514)	-19%	8%	3,076,000	35%
METERS, PENALTIES & OTHER	4,655	0.7%	4,680	(25)	-1%	4%	110,000	1%
SEWER CHARGES	8,344	1.2%	11,975	(3,631)	-30%	8%	100,000	1%
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 689,707</b>	<b>100.0%</b>	<b>\$ 566,045</b>	<b>\$ 123,662</b>	<b>22%</b>	<b>8%</b>	<b>\$ 8,676,000</b>	<b>100%</b>

### REVENUE COMMENTS

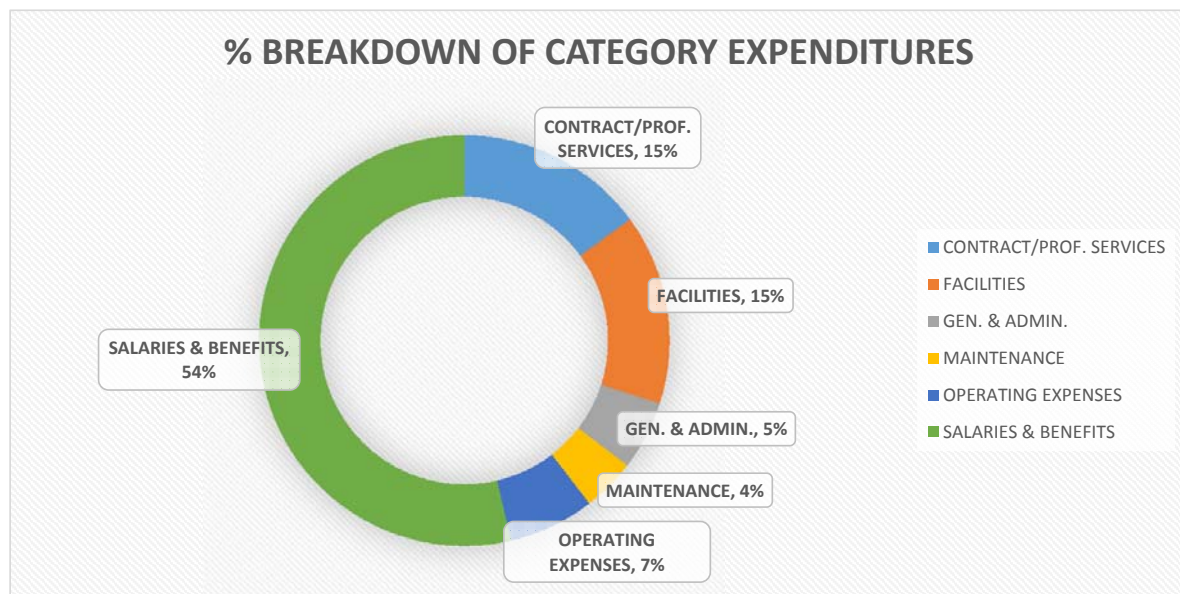
Dec 17 contains the new rates, which explains the decrease in the basic charge and the increase in usage. Consumption for Dec 17 was slightly lower than Dec 16.

### EXPENSES BY CATEGORY

DESCRIPTION	COMPARING AGAINST PRIOR YEAR					COMPARING AGAINST BUDGET		
	ACTUALS	% OF TOTAL	PRIOR YEAR	\$ Diff.	% Diff.	Act. % of Budget	ANNUAL BUDGET	% of Annual
SALARIES & BENEFITS	\$ 266,297	53.7%	\$ 276,380	\$ (10,083)	-4%	6%	\$ 4,531,632	61%
CONTRACT/PROF. SERVICES	74,147	14.9%	77,694	(3,547)	-5%	5%	1,520,561	20%
OPERATING EXPENSES	33,548	6.8%	45,423	(11,876)	-26%	9%	373,100	5%
MAINTENANCE	20,690	4.2%	19,040	1,651	9%	12%	174,000	2%
FACILITIES	74,518	15.0%	28,792	45,726	159%	15%	510,300	7%
GEN. & ADMIN.	27,048	5.5%	21,239	5,809	27%	7%	377,450	5%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 496,248</b>	<b>100%</b>	<b>\$ 468,568</b>	<b>\$ 27,679</b>	<b>6%</b>	<b>7%</b>	<b>\$ 7,487,043</b>	<b>100%</b>

### EXPENSE COMMENTS

For the most part, expenses were tracking similar to the prior year. Facilities was timing related to the prior month.



## OPERATING ANALYSIS - Q2 2018 (OCT-DEC)

### REVENUE BY CATEGORY

DESCRIPTION	COMPARING AGAINST PRIOR YEAR					COMPARING AGAINST BUDGET		
	ACTUALS	% OF TOTAL	PRIOR YEAR	\$ Diff.	% Diff.	Act. % of Budget	ANNUAL BUDGET	% of Annual
WATER USAGE	\$ 1,496,071	64.9%	\$ 766,008	\$ 730,062	95%	28%	\$ 5,390,000	62%
BASIC CHARGES	767,551	33.3%	908,164	(140,612)	-15%	25%	3,076,000	35%
METERS, PENALTIES & OTHER	16,857	0.7%	11,735	5,122	44%	15%	110,000	1%
SEWER CHARGES	25,032	1.1%	27,898	(2,866)	-10%	25%	100,000	1%
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 2,305,512</b>	<b>100.0%</b>	<b>\$ 1,713,805</b>	<b>\$ 591,706</b>	<b>35%</b>	<b>27%</b>	<b>\$ 8,676,000</b>	<b>100%</b>

### REVENUE COMMENTS

Q2 contains the new rates, which explains the decrease in the basic charge and the increase in usage charge compared to prior year. Consumption for Dec 17 was slightly lower than Dec 16.

### EXPENSES BY CATEGORY

DESCRIPTION	COMPARING AGAINST PRIOR YEAR					COMPARING AGAINST BUDGET		
	ACTUALS	% OF TOTAL	PRIOR YEAR	\$ Diff.	% Diff.	Act. % of Budget	ANNUAL BUDGET	% of Annual
SALARIES & BENEFITS	\$ 886,159	54.8%	\$ 949,501	\$ (63,342)	-7%	20%	\$ 4,531,632	61%
CONTRACT/PROF. SERVICES	369,498	22.9%	266,855	102,643	38%	24%	1,520,561	20%
OPERATING EXPENSES	89,530	5.5%	107,014	(17,483)	-16%	24%	373,100	5%
MAINTENANCE	50,085	3.1%	39,665	10,421	26%	29%	174,000	2%
FACILITIES	148,159	9.2%	134,179	13,980	10%	29%	510,300	7%
GEN. & ADMIN.	72,297	4.5%	71,994	304	0%	19%	377,450	5%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,615,729</b>	<b>100%</b>	<b>\$ 1,569,206</b>	<b>\$ 46,522</b>	<b>3%</b>	<b>22%</b>	<b>\$ 7,487,043</b>	<b>100%</b>

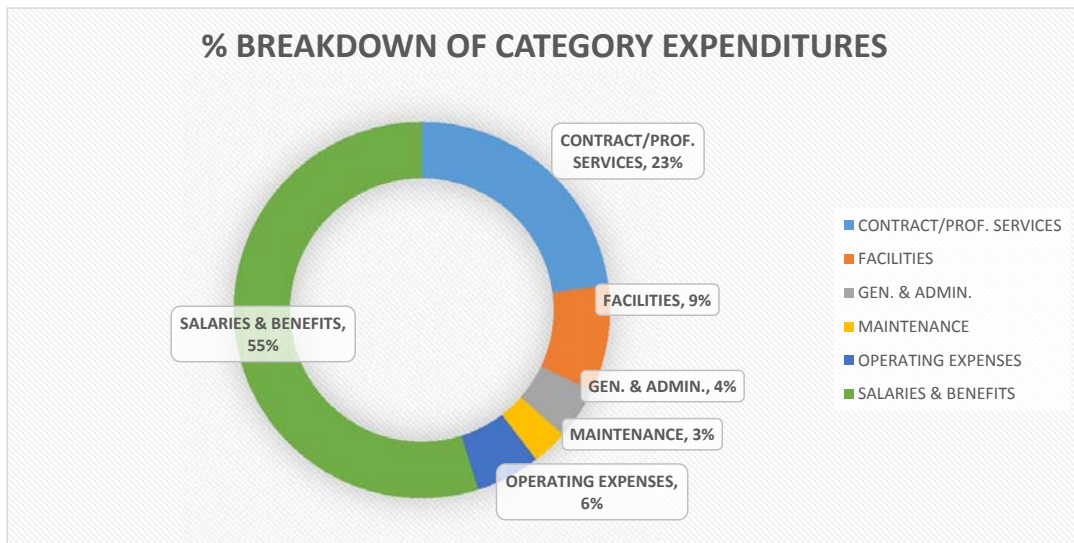
### EXPENSE COMMENTS

For the most part, expenses were tracking similar to the prior year. Most fluctuations are timing related.

Salaries/Benefits: There was ~\$50K in health insurance timing, this will catch up next quarter.

Contract/Prof Serv: There was a more one-time, unexpected expense of \$50K this quarter for two wells (Paso 6 and Manana Woods 1). Legal was ~\$30K higher than prior year. Timing of software expenses Q over Q was ~\$25K higher than prior year.

### % BREAKDOWN OF CATEGORY EXPENDITURES



## OPERATING ANALYSIS - YTD 2018 (JULY-DEC)

### REVENUE BY CATEGORY

DESCRIPTION	COMPARING AGAINST PRIOR YEAR					COMPARING AGAINST BUDGET		
	ACTUALS	% OF TOTAL	PRIOR YEAR	\$ Diff.	% Diff.	Act. % of Budget	ANNUAL BUDGET	% of Annual
WATER USAGE	\$ 2,579,387	59.4%	\$ 1,779,541	\$ 799,846	45%	48%	\$ 5,390,000	62%
BASIC CHARGES	1,667,732	38.4%	1,816,284	(148,553)	-8%	54%	3,076,000	35%
METERS, PENALTIES & OTHER	47,524	1.1%	47,278	246	1%	43%	110,000	1%
SEWER CHARGES	50,068	1.2%	52,041	(1,973)	-4%	50%	100,000	1%
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 4,344,711</b>	<b>100.0%</b>	<b>\$ 3,695,145</b>	<b>\$ 649,566</b>	<b>18%</b>	<b>50%</b>	<b>\$ 8,676,000</b>	<b>100%</b>

### REVENUE COMMENTS

YTD revenues have two reasons they are higher/shifted. 1) overall consumption is 10% higher than the prior year and 2) the shift in the new rates pushes higher revenue on the usage vs. basic.

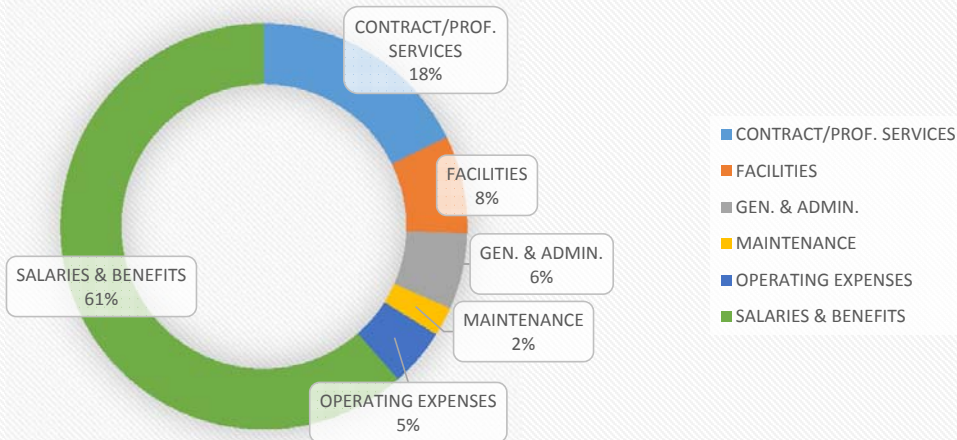
### EXPENSES BY CATEGORY

DESCRIPTION	COMPARING AGAINST PRIOR YEAR					COMPARING AGAINST BUDGET		
	ACTUALS	% OF TOTAL	PRIOR YEAR	\$ Diff.	% Diff.	Act. % of Budget	ANNUAL BUDGET	% of Annual
SALARIES & BENEFITS	\$ 2,137,677	61.5%	\$ 2,186,810	\$ (49,133)	-2%	47%	\$ 4,531,632	61%
CONTRACT/PROF. SERVICES	617,700	17.8%	500,685	117,015	23%	41%	1,520,561	20%
OPERATING EXPENSES	160,641	4.6%	176,931	(16,290)	-9%	43%	373,100	5%
MAINTENANCE	80,789	2.3%	63,875	16,914	26%	46%	174,000	2%
FACILITIES	270,322	7.8%	253,371	16,951	7%	53%	510,300	7%
GEN. & ADMIN.	211,248	6.1%	175,910	35,338	20%	56%	377,450	5%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,478,377</b>	<b>100%</b>	<b>\$ 3,357,581</b>	<b>\$ 120,796</b>	<b>4%</b>	<b>46%</b>	<b>\$ 7,487,043</b>	<b>100%</b>

### EXPENSE COMMENTS

For the most part, expenses were tracking similar to the prior year. Reasons for the swing in Salaries/Benefits and Contract/Prof Serv are the same explanations from the Q2 detail, mainly being timing of expenses. However, there were some unexpected maintenance needed on well repairs of ~\$50K.

### % BREAKDOWN OF CATEGORY EXPENDITURES





## OPERATING ANALYSIS - YTD TREND FY1718

### REVENUE BY CATEGORY

DESCRIPTION	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	YTD	BUDGET	% OF BUD.
WATER USAGE	217,386	442,081	423,848	475,748	590,116	430,207	2,579,387	5,390,000	48%
BASIC CHARGES	299,905	300,306	299,969	274,396	246,655	246,501	1,667,732	3,076,000	54%
METERS, PENALTIES & OTHER	4,950	7,375	18,342	4,797	7,405	4,655	47,524	110,000	43%
SEWER CHARGES	8,344	8,229	8,463	8,344	8,344	8,344	50,068	100,000	50%
<b>TOTAL OPERATING REVENUE</b>	<b>530,586</b>	<b>757,991</b>	<b>750,623</b>	<b>763,285</b>	<b>852,520</b>	<b>689,707</b>	<b>4,344,711</b>	<b>8,676,000</b>	<b>50%</b>

### EXPENSES BY CATEGORY

DESCRIPTION	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	YTD	BUDGET	% OF BUD.
SALARY & BENEFITS	563,268	422,914	265,336	309,876	309,986	266,297	2,137,677	4,531,632	47%
CONTRACT/PROF. SERVICES	30,644	86,967	130,591	145,466	149,885	74,147	617,700	1,520,561	41%
OPERATING EXPENSES	12,148	26,573	32,390	25,600	30,382	33,548	160,641	373,100	43%
MAINTENANCE	7,245	10,897	12,561	20,260	9,135	20,690	80,789	174,000	46%
FACILITIES	14,530	52,281	55,352	57,133	16,509	74,518	270,322	510,300	53%
GEN. & ADMIN.	94,278	19,232	25,442	18,622	26,626	27,048	211,248	377,450	56%
<b>TOTAL OPERATING EXPENSES</b>	<b>722,113</b>	<b>618,864</b>	<b>521,671</b>	<b>576,958</b>	<b>542,523</b>	<b>496,248</b>	<b>3,478,377</b>	<b>7,487,043</b>	<b>46%</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(191,527)</b>	<b>139,127</b>	<b>228,951</b>	<b>186,327</b>	<b>309,996</b>	<b>193,459</b>	<b>866,334</b>	<b>1,188,957</b>	<b>73%</b>

### COMMENTS

#### REVENUE/EXPENSES:

Current year to date revenue and expenses are tracking as expected overall. Consumption has been tracking higher the first 5 months of the year, December saw a slow down in consumption.

Please refer to the quarterly sections for any further detail on revenue or expenses.

#### GENERAL/PROCESS:

There are annual/one-time expenses paid upfront that could cause individual months to appear skewed or accrual based accounting that will impact June/July more so. An example of this would be some insurances are paid in July, this causes July expenses to appear higher than other months. The District operates on an annual budget and performs accrual based accounting procedures for a hard year end close, this is typical for governmental accounting.

Data is continuously being reviewed, so it is not un-common for a prior report balance to change slightly throughout the year as accounts are reconciled.

**OPERATING EXPENSE ANALYSIS - Q2**

**DETAILED EXPENSES BY DEPARTMENT**

<b>ADMINISTRATIVE</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 81,159	19%	\$ 178,599	42%	\$ 429,397	
CONTRACT/PROFESSIONAL SERVICES	\$ 139,982	21%	\$ 300,879	45%	\$ 673,900	
OPERATING EXPENSES	\$ 268	27%	\$ 268	27%	\$ 1,000	
MAINTENANCE	\$ 3,587	15%	\$ 6,346	26%	\$ 24,500	
FACILITIES	\$ 6,047	22%	\$ 11,802	42%	\$ 28,000	
GEN. & ADMIN.	\$ 25,112	17%	\$ 114,531	77%	\$ 148,200	YTD: Membership dues, Prop 218 costs_OK overall
<b>TOTAL ADMINISTRATIVE</b>	<b>\$ 256,156</b>	<b>20%</b>	<b>\$ 612,425</b>	<b>47%</b>	<b>\$ 1,304,997</b>	

<b>FINANCE</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 208,665	21%	\$ 479,833	48%	\$ 997,621	
CONTRACT/PROFESSIONAL SERVICES	\$ 42,780	38%	\$ 61,003	54%	\$ 114,000	
OPERATING EXPENSES	\$ -	0%	\$ 2,677	535%	\$ 500	YTD: New computer set-up
MAINTENANCE	\$ 6,170	82%	\$ 7,461	99%	\$ 7,500	Q2: Vehicles had more repairs than expected
GEN. & ADMIN.	\$ 38,023	26%	\$ 65,839	45%	\$ 145,750	
<b>TOTAL FINANCE</b>	<b>\$ 295,638</b>	<b>23%</b>	<b>\$ 616,812</b>	<b>49%</b>	<b>\$ 1,265,371</b>	

<b>ENGINEERING</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 21,916	22%	\$ 42,091	41%	\$ 101,632	
CONTRACT/PROFESSIONAL SERVICES	\$ -	0%	\$ 1,099	4%	\$ 25,000	
OPERATING EXPENSES	\$ -	0%	\$ -	0%	\$ -	
MAINTENANCE	\$ -	0%	\$ -	0%	\$ -	
FACILITIES	\$ 286	24%	\$ 671	56%	\$ 1,200	
GEN. & ADMIN.	\$ 767	24%	\$ 1,841	58%	\$ 3,200	
<b>TOTAL ENGINEERING</b>	<b>\$ 22,969</b>	<b>18%</b>	<b>\$ 45,702</b>	<b>35%</b>	<b>\$ 131,032</b>	

<b>DISTRIBUTION</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 270,038	19%	\$ 676,751	47%	\$ 1,447,440	
CONTRACT/PROFESSIONAL SERVICES	\$ 29,899	30%	\$ 43,947	44%	\$ 100,000	
OPERATING EXPENSES	\$ 46,893	35%	\$ 92,397	68%	\$ 135,000	
MAINTENANCE	\$ 28,771	29%	\$ 50,626	50%	\$ 100,500	
FACILITIES	\$ 46,923	27%	\$ 90,478	51%	\$ 176,000	
GEN. & ADMIN.	\$ 926	8%	\$ 3,667	31%	\$ 12,000	
<b>TOTAL DISTRIBUTION</b>	<b>\$ 423,451</b>	<b>22%</b>	<b>\$ 957,867</b>	<b>49%</b>	<b>\$ 1,959,315</b>	

<b>WATERSHED</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 47,728	19%	\$ 97,253	38%	\$ 253,271	
CONTRACT/PROFESSIONAL SERVICES	\$ 71,327	20%	\$ 80,569	23%	\$ 357,661	
OPERATING EXPENSES	\$ 311	12%	\$ 1,902	76%	\$ 2,500	
MAINTENANCE	\$ 2,134	21%	\$ 2,134	21%	\$ 10,000	
FACILITIES	\$ 190	63%	\$ 326	109%	\$ 300	
GEN. & ADMIN.	\$ 6,621	11%	\$ 22,805	37%	\$ 61,300	
<b>TOTAL WATERSHED</b>	<b>\$ 128,310</b>	<b>19%</b>	<b>\$ 204,989</b>	<b>30%</b>	<b>\$ 685,032</b>	

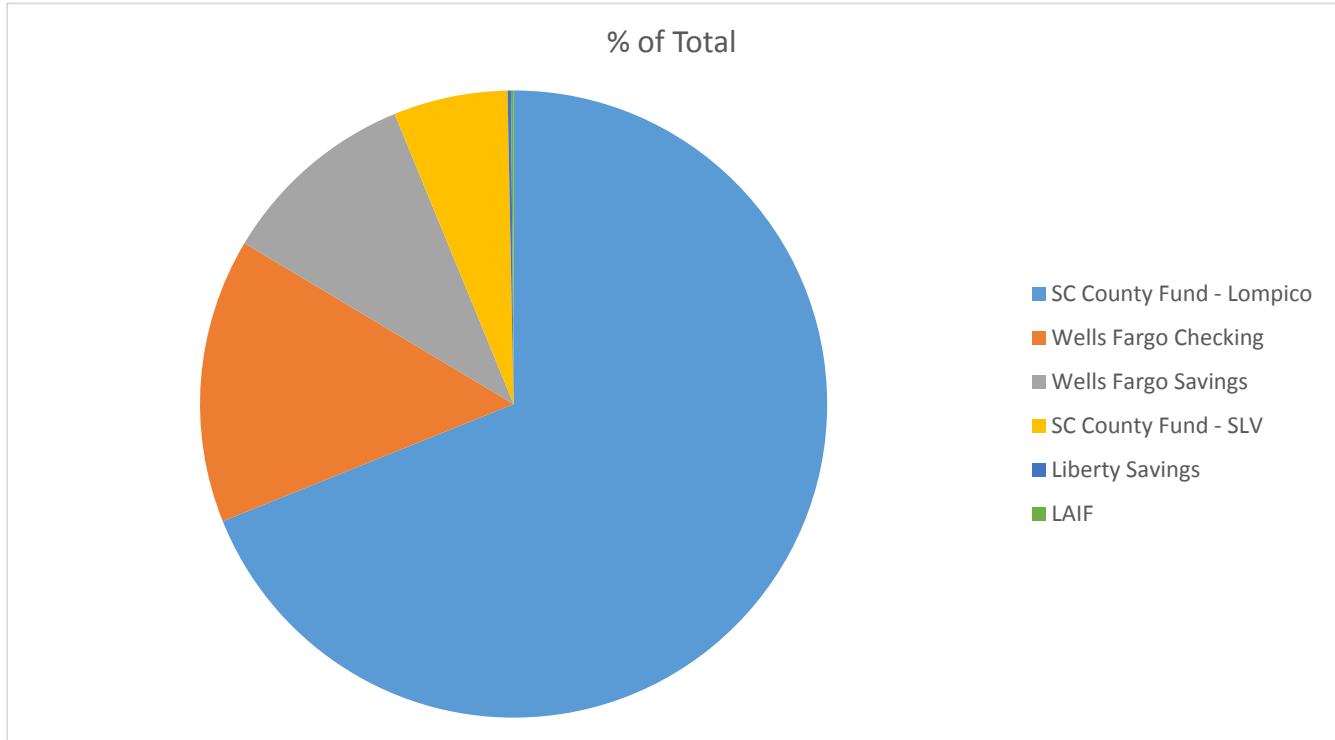
<b>SUPPLY &amp; TREATMENT</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 251,268	20%	\$ 653,373	51%	\$ 1,273,271	
CONTRACT/PROFESSIONAL SERVICES	\$ 81,958	42%	\$ 119,998	62%	\$ 195,000	Q2 well maintenance expenses ~\$50K
OPERATING EXPENSES	\$ 30,292	14%	\$ 50,779	24%	\$ 212,600	
MAINTENANCE	\$ 9,424	30%	\$ 14,222	46%	\$ 31,000	
FACILITIES	\$ 92,952	32%	\$ 163,700	55%	\$ 295,000	
GEN. & ADMIN.	\$ 848	12%	\$ 2,565	37%	\$ 7,000	
<b>TOTAL SUPPLY &amp; TREATMENT</b>	<b>\$ 466,742</b>	<b>23%</b>	<b>\$ 1,004,637</b>	<b>50%</b>	<b>\$ 2,010,965</b>	

**DETAILED EXPENSES BY DEPARTMENT (continued)**

<b>WASTEWATER</b>	<b>Q2 CY ACTUALS</b>	<b>Q2 % of Budget</b>	<b>YTD ACTUALS</b>	<b>YTD % of Budget</b>	<b>ANNUAL BUDGET</b>	<b>Notes</b>
SALARIES & BENEFITS	\$ 5,385	19%	\$ 9,776	34%	\$ 29,000	
CONTRACT/PROFESSIONAL SERVICES	\$ 3,552	6%	\$ 10,206	19%	\$ 55,000	
OPERATING EXPENSES	\$ 11,766	55%	\$ 12,618	59%	\$ 21,500	
MAINTENANCE	\$ -	0%	\$ -	0%	\$ 500	
FACILITIES	\$ 1,760	18%	\$ 3,345	34%	\$ 9,800	
GEN. & ADMIN.	\$ -	0%	\$ -	0%	\$ -	
<b>TOTAL WASTEWATER</b>	<b>\$ 22,463</b>	<b>17%</b>	<b>\$ 35,944</b>	<b>28%</b>	<b>\$ 130,331</b>	Will have allocations applied at year end
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,615,729</b>	<b>22%</b>	<b>\$ 3,478,377</b>	<b>46%</b>	<b>\$ 7,487,043</b>	

AS OF 12/31/2017

<b>LIQUID ASSETS</b>	<b>\$ Amount</b>	<b>% of Total</b>	<b>Ave Interest Rate</b>
Wells Fargo Checking	376,640	14.7%	0.35%
Wells Fargo Savings	262,800	10.2%	0.10%
Liberty Savings	4,506	0.2%	0.15%
SC County Fund - 76530	151,130	5.9%	1.15%
SC County Fund - 76644	1,769,335	68.9%	1.15%
LAIF	3,402	0.1%	1.24%
	<u>\$ 2,567,813</u>	<u>100%</u>	



The background features a light blue gradient that transitions from a pale, almost white hue at the top to a deeper blue at the bottom. Scattered throughout are several water droplets of various sizes, each with a realistic highlight and shadow, giving them a three-dimensional appearance.

# SLVWD – SEWER FUND

FINANCIAL PAST, CURRENT AND FUTURE

## Why is there a separate Sewer Fund?

- GAAP (Generally Accepted Accounting Principles) require proprietary activities, such as the sewer, have its costs and operations financed or recovered primarily through user charges. Our District has two distinct Funds, Sewer and Water.
  - Proprietary Funds / Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed and recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.
  - Simply put, each Fund needs to cover its own expenses, including capital/depreciation.
    - We have a small caveat where our District receives some property tax revenue.

## Sewer History

- The District was approached to bring water to Bear Creek Estates, as well as take over the sewer system. This all occurred sometime around the 1970's.

The Bear Creek Estates Wastewater Collection System is regulated by the California Regional Water Quality Control Board, Central Coast Region, San Louis Obispo California.

In the 1990's, studies found elevated nitrate levels in surface water and groundwater in the San Lorenzo River Watershed. The Regional Board adopted new nitrogen control measures in the issuance of new or revised waste discharge requirements.

In 2005, the District moved forward with a capital project to attempt to meet these requirements. Requirements have not continually been meet.

In 2016, the Regional Board issued a Notice of Violation of Wastewater Discharge Permit to the District citing ongoing violations with insufficient total nitrogen reduction since 2007. It required the District to provide an engineering report on the issues. The District is currently still moving forward with many of the recommendations from the engineer. This work is expected to be completed by March 31, 2018.

## How do SLVWD Funds function compared to other agencies?

- For SLVWD, the Sewer Fund is significantly smaller than the Water Fund.
  - There are only 56 sewer connections compared to the 7,900 water connections.
  - Sewer revenue is only around \$100,000 vs. the \$7M+ Water revenue.
  - The Sewer Fund has limited direct revenue and expenses.
    - The Sewer Fund is too small to warrant dedicated staff and higher level expenses, therefore, staff and other general expenses run through the Water Fund and are allocated to the Sewer Fund.

Other agencies, like cities or counties, have larger Funds/divisions that will have dedicated staff, individual revenue sources and expenses specific to them. A lot of them will still have a central finance or HR division that oversees all the Funds as a whole.

So in general our Funds operate similar to others, our Sewer Fund is just very small in comparison. This is where economies of scale will come in.



## **Economies of scale and the impact**

- Economies of scale is an economics term that describes a competitive advantage that large entities have over smaller entities. It means that the larger the business, non-profit or government, the lower its costs. For example, the cost of producing one unit is less when many units are produced at once. In our case it is more an economy of scope.

## **Why do some things seem so much more expensive for the Sewer Fund?**

- Simply put, some are. If a report for each Fund costs \$5,000 regardless, that means Sewer customers would pay about \$89 each and water customers would pay \$0.63 each.
- However, there are also benefits. If the Sewer Fund was private or true stand alone, it would likely have to bear the costs of a full time employee, benefits, accounting, insurance, etc. This is where being part of the larger entity (SLVWD as a whole) has positive economies of scope for the Sewer Fund.

## How are Sewer expenses and revenue tracked?

- The District's chart of accounts allows us to track by Fund. An account is structured as follows XX-XXX-XXXX. A common Sewer account is 02-600-5200 Prof./Contract Services.

XX – is the Fund, Sewer is 02

XXX is the department, Sewer is 600

XXXX – the accounts vary by the different category and sub-categories we have

- Direct revenue or expenses specific to the Sewer Fund are coded directly.
  - Examples include the monthly sewer fee as revenue, the PG&E bill specific for the wastewater plant, and direct time of staff spent on sewer activities.
- Indirect expenses are booked as part of an allocation entry
  - Employee overhead and a general amount for certain other shared expenses are common
  - Over the years these have been done different ways. We have been working on a consistent way to book going forward.

## Allocation past and future:

- In the past, a flat \$4,000 was allocated to the Sewer Fund for all general expenses.
- In the future (FY1718), specific accounts or expenses will be allocated based on the ratio of Sewer to Water customers. Currently about 0.7%.
  - Account example: the Admin. building utilities expense will be multiplied by 0.7% and allocated to the Sewer Fund. So a \$10,000 bill would have \$70 go to Sewer.
  - Specific expense example: the annual audit expense will be multiplied by 0.7% and allocated to the Sewer Fund.
- A more formal allocation process is best practice. This will likely result in higher costs being allocated to the Sewer Fund. My initial estimate is \$25-30K.

Account coding and allocation consistency will be more formally adopted and used going forward. We will work on this at the Budget & Finance Committee meetings.

## Financials/Audits

- The District completes third party annual audits, which are discussed publicly and posted to our website. The website has audits going back to FY1998 posted. We have internally completed a 25 year review of the Sewer Fund financials to help with the financial history analysis.

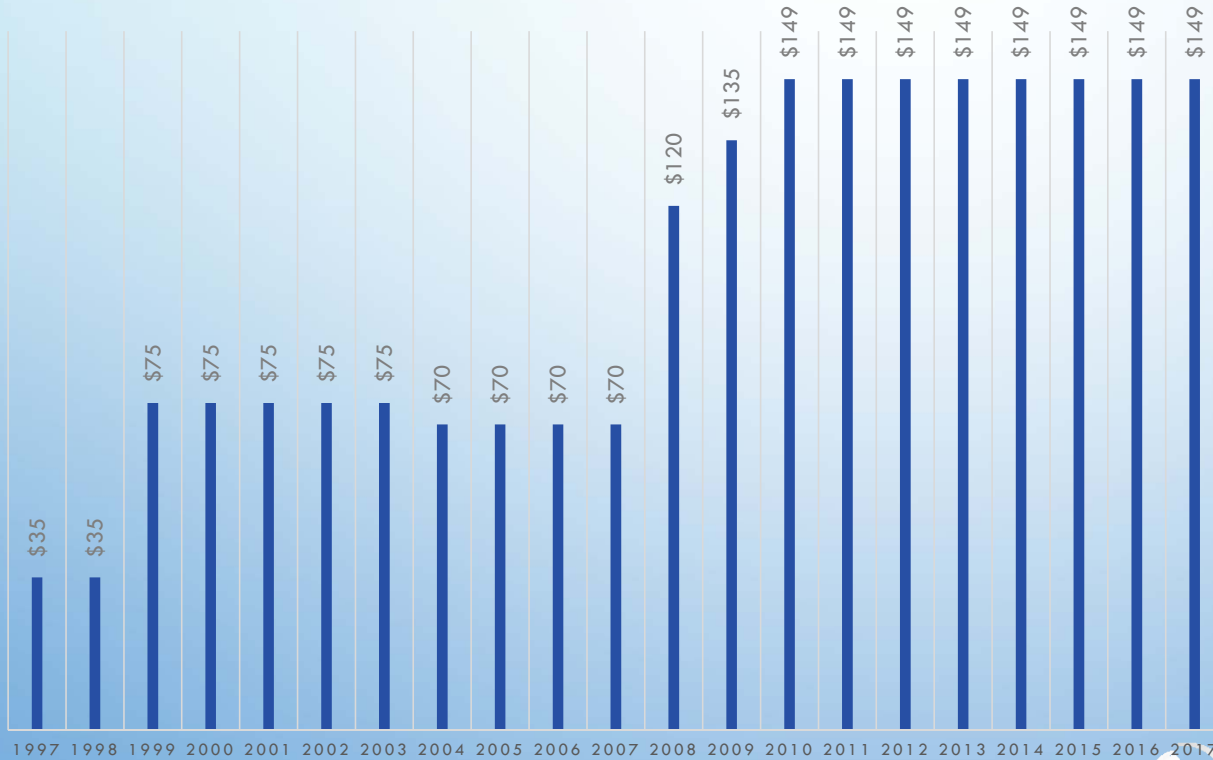
The audit looks at SLVWD as a whole, but later breaks out the Sewer Fund in the supplemental information sections. This is typically where it will show if there are monies due to or from the two Funds.

There are multiple parts to the financial information, we will start to go over. But in general the costs (expenses, including depreciation) are to be recovered through user charges.

There are quarterly financial reports generated and presented at Board meetings that will show quarterly revenue and expenses. It is important to note that some of the Sewer Fund allocations will not occur until year end.

# Sewer Rate History

MONTHLY SEWER CHARGE EQUIVALENT



- As you can see, there are significant spans of time where the rates remained unchanged. We will go into the background and impact this has at a later point.
- This is a monthly equivalent representation. The District switched to monthly billing in May of 2014.
  - Prior bi-monthly bills were \$298.

## Financial Intro

1. Schedule of Net Position: assets, liabilities and Fund balances. Fund balance is the difference between assets and liabilities— in essence, what would be left over if the assets were used to satisfy the liabilities. It is broken into 3 categories:
  - Net investment in capital assets
  - Restricted for debt services
  - Unrestricted (deficit)

*(Running in an unrestricted deficit can be a poor financial indicator)*
2. Schedule of Revenues, Expenses and Changes in Net Position: this is the income statement. In short, the revenue minus the expenditures is the change in Fund balances which ties into the Net Position above.
  - This will include depreciation
3. Due To/From or Internal Balances is made up of: the changes from cash equivalent assets/liabilities, revenue, and operating, capital, and debt expenses.
  - This is more of an internal relationship. If it is favorable or unfavorable will show up in the main financial sections above.

## Financial History: Schedule of Net Position

- While it is good that there at least is a positive total net position, the concern is with the Unrestricted deficit.
  - The continued deficit simply means there is not enough revenue to cover the expenses.
- From the prior slide, the Fund balance/net position is in essence what would be left over if the assets were used to satisfy the liabilities.
  - The issue here is that the capital assets of the Sewer Fund could not realistically be liquidated to satisfy a liability.
- The change in net position between years will tie into the next slide for the income statement.
  - $FY2017\ 385,085 - FY2016\ 445,806 = (60,721)$  change in net position.

FISCAL YEAR	INVESTED IN CAPITAL, NET DEBT	UNRESTRICTED (DEFICIT)	TOTAL NET POSITION
1993	1,035,405	(175,601)	859,804
1994	1,010,470	(164,048)	846,422
1995	991,131	(172,217)	818,914
1996	961,925	(165,104)	796,821
1997	937,745	(157,468)	780,277
1998	907,606	(123,314)	784,292
1999	883,176	(139,920)	743,256
2000	853,054	(128,267)	724,787
2001	830,472	(120,639)	709,833
2002	806,671	(117,300)	689,371
2003	790,776	(118,352)	672,424
2004	799,310	(40,954)	758,356
2005	922,724	(190,676)	732,048
2006	902,704	(202,033)	700,671
2007	860,932	(205,972)	654,960
2008	819,159	(233,306)	585,853
2009	777,386	(238,725)	538,661
2010	735,614	(210,654)	524,960
2011	693,841	(195,136)	498,705
2012	652,068	(172,830)	479,238
2013	610,295	(143,043)	467,252
2014	568,523	(94,772)	473,751
2015	526,750	(55,207)	471,543
2016	506,043	(60,237)	445,806
2017	505,545	(120,460)	385,085

## Financial History: Schedule of Revenues, Expenses and Changes in Net Position (Income Statement)

- Per accounting standards, the Fund should be able to have revenue cover expenses, including depreciation.
  - In the past for rate setting, this has been excluded as a way to keep costs down in hopes of finding another capital Funding source.
- 2014 was an outlier for low expenses, this was due inaccurate coding of some water analysis charges to the Water Fund.
- 2016 & 2017 have had higher expenses - part of this is due to the catch-up of time needed to be spent on the Sewer Fund.
  - While 2017 may appear to have a temporary inflated expense run rate, the new allocation analysis will likely result in similar expense results going forward.

FISCAL YEAR	REVENUE	EXPENSES	DEPRECIATION	CHANGE IN NET POSITION
1992	37,539	(28,051)	(29,935)	(20,447)
1993	24,404	(24,820)	(29,935)	(30,351)
1994	40,796	(24,243)	(29,935)	(13,382)
1995	34,663	(32,121)	(30,050)	(27,508)
1996	42,268	(44,216)	(30,145)	(32,093)
1997	44,070	(30,473)	(30,141)	(16,544)
1998	48,208	(14,054)	(30,139)	4,015
1999	43,215	(54,129)	(30,122)	(41,036)
2000	43,280	(31,627)	(30,122)	(18,469)
2001	44,758	(29,459)	(30,253)	(14,954)
2002	44,520	(34,488)	(30,494)	(20,462)
2003	45,981	(32,434)	(30,494)	(16,947)
2004	46,139	(31,114)	(30,494)	(15,469)
2005	46,185	(41,999)	(30,494)	(26,308)
2006	48,660	(45,784)	(34,253)	(31,377)
2007	46,199	(50,138)	(41,772)	(45,711)
2008	47,038	(74,372)	(41,773)	(69,107)
2009	81,466	(86,885)	(41,773)	(47,192)
2010	89,519	(61,447)	(41,773)	(13,701)
2011	99,764	(84,246)	(41,773)	(26,255)
2012	99,199	(76,893)	(41,773)	(19,467)
2013	98,668	(68,881)	(41,773)	(11,986)
2014	101,637	(53,365)	(41,773)	6,499
2015	100,088	(60,523)	(41,773)	(2,208)
2016	98,262	(84,549)	(39,450)	(25,737)
2017	102,107	(120,471)	(42,357)	(60,721)



## Financial History: Due To/From Balances

- In general, the easiest way to see the movement of money between the Funds is to look at the Due To/From, or more recently called Internal Balances. This is shown here as the income or (loss).
- This factors in all the revenue earned, changes in cash equivalent asset/liab., operating expenses, debt repayment and capital expenses. It essentially is depicting the cash equivalent earned or owed.
  - What it does not factor in are the more non-cash items such as depreciation.
- This trends similarly as the Unrestricted (deficit) net position.

	15,715	Beg. Balance
Fiscal Year	Annual Income (Loss)	Running Income (Loss)
1993	5,620	21,335
1994	(4,712)	16,623
1995	(21,577)	(4,954)
1996	(12,585)	(17,539)
1997	(7,062)	(24,601)
1998	13,537	(11,064)
1999	(36,324)	(47,388)
2000	(12,046)	(59,434)
2001	43,732	(15,702)
2002	6,336	(9,366)
2003	(3,418)	(12,784)
2004	(25,047)	(37,831)
2005	(150,338)	(188,169)
2006	(15,037)	(203,206)
2007	(2,999)	(206,205)
2008	(27,807)	(234,012)
2009	(5,694)	(239,706)
2010	28,768	(210,938)
2011	14,503	(196,435)
2012	26,414	(170,021)
2013	29,824	(140,197)
2014	45,425	(94,772)
2015	39,565	(55,207)
2016	2,416	(52,791)
2017	(62,971)	(115,762)

## Due To/From In More Detail

Fiscal Year	Revenue	Change in Asset/Liab.	Operating Expenses	Capital Expense	Debt Expense	Annual Income (Loss)	Running Income (Loss)
1993	26,724	16,036	(12,723)	0	(24,417)	5,620	21,335
1994	43,124	(1,265)	(12,894)	(5,000)	(28,677)	(4,712)	16,623
1995	36,663	1,592	(21,601)	(10,711)	(27,520)	(21,577)	(4,954)
1996	43,392	5,302	(34,662)	(939)	(25,678)	(12,585)	(17,539)
1997	44,652	302	(21,851)	(5,961)	(24,204)	(7,062)	(24,601)
1998	48,372	(617)	(6,745)	0	(27,473)	13,537	(11,064)
1999	43,215	(211)	(48,466)	(5,692)	(25,170)	(36,324)	(47,388)
2000	43,280	1,794	(27,374)	0	(29,746)	(12,046)	(59,434)
2001	44,758	35,972	(29,459)	(7,539)	0	43,732	(15,702)
2002	44,520	3,129	(34,488)	(6,825)	0	6,336	(9,366)
2003	45,981	(2,366)	(32,434)	(14,599)	0	(3,418)	(12,784)
2004	46,139	(1,044)	(31,114)	(39,028)	0	(25,047)	(37,831)
2005	46,185	(616)	(41,999)	(153,908)	0	(150,338)	(188,169)
2006	48,660	(3,680)	(45,784)	(14,233)	0	(15,037)	(203,206)
2007	46,199	940	(50,138)	0	0	(2,999)	(206,205)
2008	47,038	(473)	(74,372)	0	0	(27,807)	(234,012)
2009	81,466	(275)	(86,885)	0	0	(5,694)	(239,706)
2010	89,519	697	(61,448)	0	0	28,768	(210,938)
2011	99,764	(1,015)	(84,246)	0	0	14,503	(196,435)
2012	99,199	4,108	(76,893)	0	0	26,414	(170,021)
2013	98,668	37	(68,881)	0	0	29,824	(140,197)
2014	101,637	(2,846)	(53,366)	0	0	45,425	(94,772)
2015	100,088	0	(60,523)	0	0	39,565	(55,207)
2016	98,262	7,446	(84,549)	(18,743)	0	2,416	(52,791)
2017	102,107	(2,748)	(120,471)	(41,859)	0	(62,971)	(115,762)

Does NOT include depreciation

We will focus on more events in future slides, but in general you can see some of the history playing out here:

- The sewer assessment bond phased out in 99/00, which masks the rate related revenue increase in 1999.
- Around 2005 the treatment system capital project occurred to reduce the nitrate regulations (~\$225K).
- The next rate increase was in 2008, shown in the FY2009 revenue. This was for the capital improvements that were already completed in 2005.
- The 2005 plant upgrade and future improvements resulted in increased operating costs, which we see increasing in 2008.
- The past 2 years have had more activity in consulting and beginning phases for the next capital needs.

## Graphical Representation of Prior Data

There are some basic observations noted below:

- (1) Expenses excludes depreciation
- Revenue is not covering operating expenses
- Part of that revenue surplus has been used to repay the Due To
- The trend of the Due To and unrestricted deficit follow similar trend lines



## Current Rate Increase Proposal – How Did We Get Here?

1. If you go back to the rate history, there are a lot of flat years without a rate increase. This naturally spells disaster for when the “true-up” will need to occur. At a minimum, rates should follow inflation.
  - Why were there not at least inflationary increases? Even inflation increases call for a Prop 218 process. For the 2008 increase, the Prop 218 process started in 2006 and took 2 years before it passed. My understanding is that the 1999 process was similar. So for a customer base of .07%, I can start to understand the fewer rate increase attempts.
2. Not factoring in future capital needs. Depreciation expense or planned capital should be factored in to rates to build reserves for the continually aging infrastructure needs. Depreciation is an easy baseline for what you spent in the past, that you will likely have to replace in the future. Basing on planned future capital will factor in any changes and inflation, but can be more intricate to figure out. Either way, some sort of capital expense should be factored in.
  - In the past, some of the rates were set not factoring this in. There have always been hopes of getting grant money or other financing, but if those don't pan out, the cash needed for capital become more severe.
  - The current Rate Study's rate proposal did factor in the capital needs.

## What was the 2008 rate increase for?

- The main purpose of the 2008 increase was to cover the capital expenditures that were completed around 2005.
  - The capital project was to meet mandated nitrate reduction standards:
    - In May 2005 - The District moved forward with the installation of the two stage trickling filter and associated pumping – The filters were installed to meet the required 50% reduction in nitrogen. The 50% reduction was not achieved.
      - Due to the reduction not being achieved, additional plumbing modifications and additional trickling filters were completed in 2008 & 2009.
      - All of these changes in operations increased costs in electricity, consultant time, staff time and wastewater sampling.
    - The rate increase was to repay the Water Fund, similar to a loan, for the project.
      - You can see the Due To increase during construction. This was the cost of the capital assets.
        - The interest expense has never been charged to the Sewer Fund.
  - A small portion of the 2008 rates were to cover increased operating expenses at the time.... It did not factor in the increased operating costs of the new system.

## What are the main takeaways?

1. The Sewer Fund is currently at a \$115K deficit, owed to the Water Fund
  - This is from re-paying the 2005 projects and increased operating expenses over the years.
2. Operating expenses alone are/will be around \$120K per year, current revenue is only \$100K.
  - If this gap does not get covered, the deficit will only get worse.
3. The system is out of compliance and at the end of its life.
  - The collection system is from original construction around the 1970's.
  - The plant is still out of compliance and near the end of its life.
4. A plan needs to be made to:
  - Cover operating expenses, this includes any special consulting for capital planning, loans or potential grants.
  - Pay off the deficit.
  - Plan for the future capital needs. Either through rates to build reserves or strategic debt financing.