

Water

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Wastewater

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Water Recycling



Bridging

Reforming

Transforming

**Vallecitos Water District
Fiscal Year 2011 - 2012 Budget**



VALLECITOS WATER DISTRICT

A PUBLIC AGENCY

201 Vallecitos de Oro • San Marcos, California • 92069-1453 Telephone (760) 744-0460

June 15, 2011

Honorable Board of Directors
Vallecitos Water District
Re: Fiscal Year 2011-12 Budget

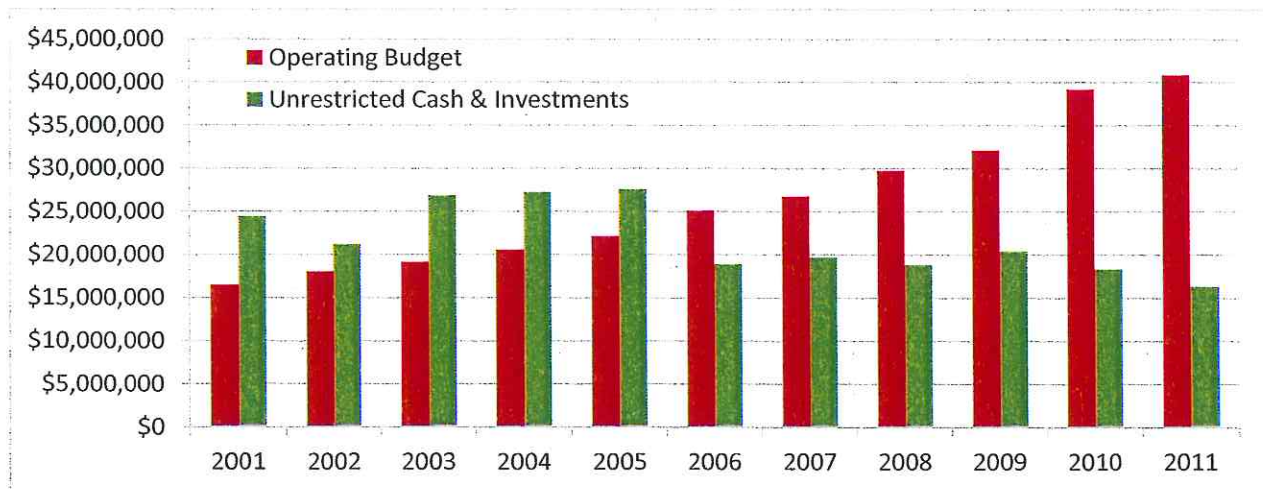
Enclosed is the adopted budget for Fiscal Year 2011-12 for your review. The budget totals \$99,424,000 compared to \$95,877,000 for the 2010-11 budget, and is composed of \$38,898,000 for operational expenses (a 5% decrease from the \$40,843,000 2010-11 operating budget) and a commitment of \$60,526,000 for capital projects (\$55,034,000 in 2010-11). The operational decrease is mainly due to a projected decline in water demand from the 2010-11 budget and consequent reduction in wholesale water cost, and a reduction salaries and benefits. In addition, \$5,892,000 from operations is being set aside for capital replacement and debt service payments.

The budget anticipates rate increases for the next two years. A Public Hearing has been scheduled for July 20, 2011 to consider a 28¢ increase per Tier 1 unit effective January 1, 2012 and another 28¢ Tier 1 per unit increase effective January 1, 2013. The water ready-to-serve charges (RTS) effective August 1, 2011 is solely from fixed wholesale costs being passed through for the first year and wholesale costs plus a 58¢ retail increase in the second year for a 5/8" meter. The sewer charge for a single family residence is anticipated to increase by \$1.82 per month in 2011/12 and \$1.87 per month for 2012/13.

Bridging, Reforming, and Transforming

The Vallecitos Water District (District) recognizes the need to communicate our financial position, get through this economic crisis, create breathing room, and make more sustainable reforms.

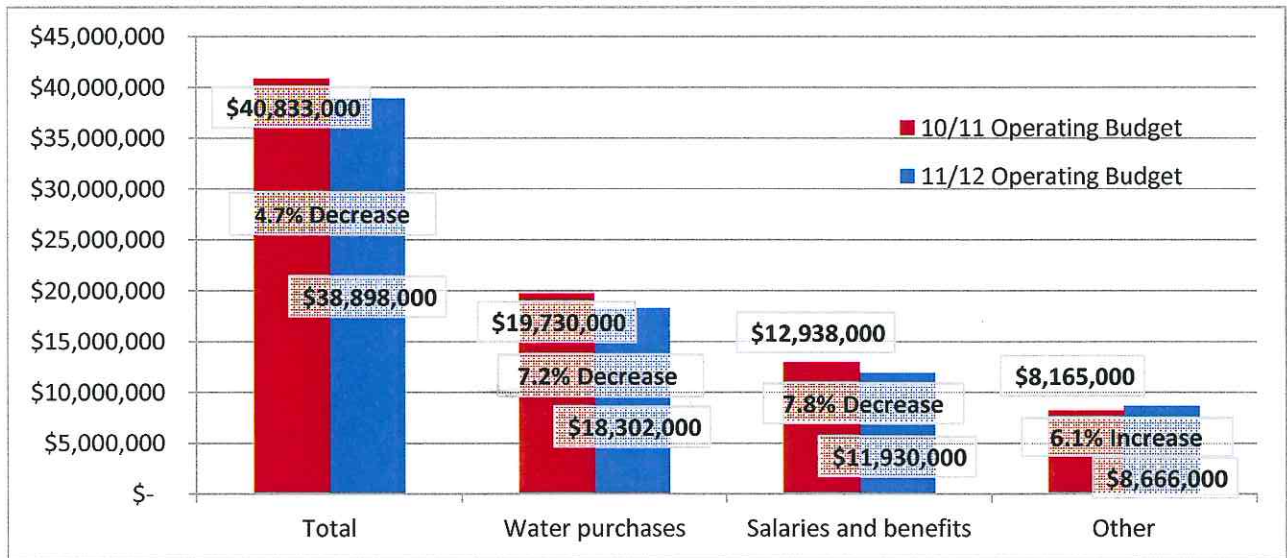
Budgeted operating expenses have doubled in the last seven years, mainly due to the escalating costs of wholesale water. Since 2004 wholesale water costs* have increased by 118%. During that same period of time the cost of water to our average single family residence has increased by 77%. During that same period of time our reserves have decreased by 41%.



*Vallecitos imports 100% of water delivered from the regions wholesaler, the San Diego County Water Authority.

Bridging

The District will bridge the economic gap by raising rates, cutting costs, and freezing hiring personnel. The District will continue to implement a rate ramp, smoothing the volatility in wholesale costs passed through to our customers. Operating costs have been cut by 5% from last year's budgeted operating expenses.



Reforming

This budget reflects sustainable reforms. The District will pursue debt financing to fund the prepayment of a side fund at CalPERS and to prefund an OPEB trust. When agencies participating in the State's multi-employer pension plan (CalPERS) were pooled, CalPERS established side funds. The District's side fund is negative and amortized over fifteen years at an interest rate of 7.75%. The District will negotiate a much lower cost of borrowing to save money. The District will also prefund its other post-employment benefits (OPEB) obligation with an irrevocable trust that will earn more interest and reduce the actuarially calculated annual contribution. Paying off the CalPERS side fund along with cuts to benefits, reduced budgeted salaries and benefits from the prior year's budget. Other costs increased due to more resources needed at our sewer reclamation plant to stabilize treatment and accommodate increased production. The budget also reflects the costs of studies to find more efficient ways to control odors and to reduce energy costs. The capital budget reflects deferred projects, but more resources are being dedicated to maintenance and an aggressive replacement program.

Transforming

Over the past decade the Board of Directors and staff have been transforming the District by investing in automated meter reading, enterprise resource planning, asset management systems, improved billing programs, solar power, energy efficient pumps and processes, and expanded water reclamation facilities. Prudent long-range planning and rate setting have been institutionalized as part of managing the District in both good economic times and bad.

Water Operations (pages 4-14)

Water purchases are projected to total 15,450 acre feet with sales of 14,828 acre feet for 2011-12. The estimated unbilled water of 4% is due to tie-ins, unmetered operational use, hydrant damage and use, use acquired with one-day permits, meter malfunction, and leaks.

The District anticipates the 2011-12 demand to be less than 2009-10 but slightly higher than projected for 2010-11. The budget assumes the Drought Alert Level is rescinded. Demand from multi-family customers will remain at the same level per account. Single family residence customers will increase by 3% in 2011-12 and level off thereafter. Accounts with larger meters will increase by 3% in 2011-12 and increase steadily to the lessor of 80% of their peak demand or their recent eight-year average use per meter. The budget assumes meter additions of 60 in 2011-12, 108 in 2012-13, and 144 in 2013-14 and thereafter.

The water operating budget decreased for the prior year's budget by \$1.8 million, or 6%, due to lower water costs and cuts to salaries and benefits.

Wastewater Operations (pages 15-24)

The District continues to maintain one of the lowest sewer rates in San Diego County while responsibly planning for needed future replacements. Wastewater operating costs are budgeted to decrease by \$168,000 over last year's budget. Increases in chemicals and other resources needed to stabilize treatment and accommodate expanded production, and odor and power studies to help increase operating efficiencies, are offset by reductions in salaries and benefits. A portion of reclaimed water costs will be recovered by contractual sales.

Personnel (pages 25-27)

A hiring freeze and reduction in force of three positions are reflected in this year's budget. Positions approved in and deferred from prior budgets are deferred further beyond the 12/13 estimate. The Source Control Technician approved in a previous budget and required to comply with regulations, is assumed funded for the last three months of 2011/12. Salaries and benefits (including amounts classified as assets or overhead) decreased by \$1,095,000, or 8.1%, from last budget's salaries and benefits.

Public Awareness (page 28)

Public Awareness and Conservation program descriptions provide detail of VWD's efforts to promote conservation of water and awareness of significant water-related issues impacting our community. Although we anticipate that the drought alert will be rescinded, there are still state mandated per capita reductions that staff will continue to monitor and adjust the magnitude of resources needed to achieve mandated targets.

Capital Budget (pages 29-83)

Capital projects are summarized on the Comprehensive Project List found on page 30. Details of each project, including timing of phases and spending, are presented on pages 32 through 76, followed by requests for vehicles and equipment. Of the \$60.5 million capital budget, \$9,997,000 are from new requests. The remainder is from projects carried over from the prior year. The capital budget increased by \$5.5 million mainly from additions requested to the Encina land outfall project and an intensive capital replacement program adopted by the Encina Wastewater Authority of which the District is a member and obligated to fund their capital projects.

Debt Service (page 84)

In July of 2007, the District converted \$63.8 million in certificates of participation from variable auction rate to fixed rate averting interest rate risk. Without short-term investments close to the amount of variable rate debt outstanding, the District would have assumed risks of a spike in interest rates without a sufficient hedge from corresponding spikes in returns of short-term investments. The total-all-in cost of the District's converted debt is 4.736%. The District is obligated to transfer semi-annual debt service payments each June 25th (about \$2.9 million) and each December 26th (about \$1.5 million) to the trustee for payment to bondholders.

In October of 2008, the District realized proceeds of \$8,000,000 from a tax-exempt private placement with Union Bank for prior construction costs of the Encina Wastewater Authority's Phase V expansion. The debt proceeds diminished the need for interfund transfers from replacement funds to restricted capacity funds. The variable rate is tied to LIBOR and the District has the option of choosing the LIBOR term. Principle is payable in even semi-annual increments of \$200,000. The current rate of interest is 1.09%.

The budget anticipates another private placement loan for \$6 million to pay off the CalPERS side fund of \$3,013,545 and prefund an irrevocable trust fund for other post-employment benefits (OPEB) with terms similar to the existing \$8,000,000 loan.

Reserve Budget and Projection (pages 86-92)

The Reserve Budget includes revenues and transfers from various sources, including capital facility fees restricted for capital expansion, investment earnings, property tax, and operations. Property tax is not included in the operating budget due to the uncertainty of allocation to the District, considering numerous historical ERAF shifts. The Reserve budget also summarizes appropriations and expected cash outflows for debt service and capital projects. These sources and uses are netted and added to a projected beginning balance to arrive at funds remaining that are restricted or reserved for capital replacement or operations. The separating of accounting and reporting of these fund activities assures that user rates for water delivery and sewer service are never influenced by growth-related capital facility needs or fund balances, and restricted capital facility fees received are spent only on growth related projects. Operating reserves equal five months of budgeted operating expenses, not including water purchases. The budget includes the reserve budget for 2011/12, a detailed reserve projection for four subsequent years, and a summary projection for the five years thereafter.

Other

Estimates have been made for both water and sewer operations for the 2012/13 fiscal year, and for reserve projections for 2012/13 through 2020/21. These figures are not part of the budget approval process for the current year, and are included for planning purposes only.

As a final note, actual-to-budget variances in total revenues and expenses in prior years have often been less than one percent. Our projections are based on trends, anticipated large one-time expenditures, economic factors within our industry, and global factors influencing our operations. Obviously, a good amount of forethought and monitoring at both the Board and staff levels has been required to produce such a realistic and useable financial guide.

Respectfully submitted,

Dennis O. Lamb,
General Manager

BUDGET FOR THE YEAR ENDING JUNE 30, 2012

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VALLECITOS WATER DISTRICT

BUDGET FOR THE YEAR ENDING JUNE 30, 2012

BUDGETARY CONSIDERATIONS

Mission Statement

The mission of Vallecitos Water District is to provide planned, effective, equitable, and fiscally sound water and sewer service to all of its customers. Recognizing that resources are limited and valuable, the mission is also to preserve and protect these resources, promoting their conservation and re-use while maintaining a high level of community awareness.

The budget is designed to comply with the dictates of this mission statement.

Budgetary Approach

Governmental agencies, such as cities and counties, usually approach their budgets from the "revenue end." Since their revenues are somewhat predictable and restricted, their budgetary considerations are based on setting a level of service (expense total) that can be attained with those available funds.

A special district, however, must make a more thorough analysis. Normally, the expenses can be determined with a high degree of accuracy, and it's the revenues that must be set to cover those expenses. To complicate matters, factors such as weather variability and customer usage habits can have a profound effect on the overall revenue projection.

Operations vs. Capital Budget

The budget is designed to ensure that various revenues and fees are used as intended. The Operations Budget, which covers the ongoing cost of running the District, is paid by the rate payers of the District through charges for water and sewer service. The Capital Facilities Budget is covered primarily by fees on new development and existing customers with increased demands.

Operating revenue in excess of operating expense is earmarked for transfer to the Replacement Reserve Fund for the future replacement of assets. This ensures that current users of our system are paying their fair share for the maintenance of existing facilities as they depreciate.

