

SAN JUAN WATER DISTRICT

Board of Director's Workshop Minutes

August 6, 2015 – 5:00 p.m.

BOARD OF DIRECTORS

Ted Costa	President
Pam Tobin	Vice President
Ken Miller	Director
Dan Rich	Director
Bob Walters	Director

SAN JUAN WATER DISTRICT MANAGEMENT AND STAFF

Shauna Lorance	General Manager
Keith Durkin	Assistant General Manager
Kate Motonaga	Finance Manager
Teri Hart	Board Secretary/Administrative Assistant

OTHER ATTENDEES

Donna Silva	
Tony Barela	SJWD
Lisa Brown	SJWD
Judy Johnson	SJWD

AGENDA ITEMS

- I. Public Comment**
- II. FY 2015-16 Retail Budget**
- III. Policy 3110.03 and Budget Process**
- IV. Public Comment**
- V. Closed Session**
- VI. Open Session**
- VII. Adjourn**

President Costa called the meeting to order at 5:03 p.m.

I. PUBLIC COMMENT

There were no public comments.

II. FY 2015-16 Retail Budget

Mr. Durkin conducted a presentation on the FY 2015-16 Draft Retail Budget. A copy of the presentation will be attached to the meeting minutes. Mr. Durkin reported that operating revenues came in approximately \$750,000 below the FY 2014-15 Retail Budget due to reduced water sales, while non-operating revenues (connection fees, prop. tax, interest...) were approximately \$1 million below budget. In addition, there were additional expenses related to conservation impacts, PR, temporary help, etc. of approximately \$300,000. Therefore, the end of year retail reserves were more than \$2 million less than the financial plan projections.

Mr. Durkin reviewed the budget assumptions, budget findings, and history of budget increases over the last five years. He also reviewed the budgeting process and explained that the budget was developed based on actual FY14-15 revenue and expenses with each department only budgeting for items that are needed and not just wanted. In addition, he informed the Board that staff will be recommending a larger rate increase this year due to the 2014-15 budget shortfalls and projected decrease in revenue in order to cover operating needs and bring reserves back to the Board Determined Discretionary Reserve Balance.

Ms. Lorance informed the Board that the intent of the workshop is to provide information to the Board so that direction can be given to staff on the information that will be included in the Prop. 218 notice, which will be reviewed at the August 12th Board meeting.

Ms. Motonaga conducted a presentation on the FY 2015-16 Draft Retail Budget. A copy of the presentation will be attached to the meeting minutes. She reviewed the historical and estimated water deliveries, which assumes that there will be a 36% reduction through December 2015 and then a 20% reduction from January through June 2016. In addition, she reviewed the graph definitions for the Minimum Balance Needed, Unrestricted Reserve Balance and Board Determined Discretionary Reserve Balance.

Ms. Motonaga provided the Board with four scenarios for rate increases. The scenarios included increases at 3% per the Financial Plan, 6%, 12% and 25%. Ms. Motonaga explained that a rate increase at 3% or 6% is not fiscally viable since the Unrestricted Reserve Balance would fall below the Board Determined Discretionary Reserve Balance. In fact, with a 3% rate increase as projected in the Financial Plan, the District would have no Reserves (cash) by the end of 2019. Therefore, staff does not recommend either of these two scenarios.

Ms. Motonaga reviewed the 12% and 25% scenarios and explained that the higher increase would bring the reserve balance above the Board Determined Discretionary Reserve Balance quicker. She explained that the impact to the average customer account would be \$4 per month with the 12% increase and \$10 per month with the 25% increase. In addition, she explained that the 12% increase would result in approximately \$513,000 net income for distribution to the reserves.

Director Miller requested that a chart be provided to show previous normal year revenue and an estimated "normal conditions (without conservation)" revenue for 14-15 and 15-16 with the projected revenue for 2014-15 and 2015-16 overlaid. In addition, he would like the budget prior to the drought and the proposed budget shown which indicates what percentage of the net income change is a result of the revenue loss from the drought.

Director Rich commented that the District has been more conservative in raising rates than most of the other cities and agencies. He commented that he believes that it would be more acceptable to customers to see a higher rate increase that was caused by the drought taking place during the drought than to instigate higher rate increases when

there is rain and conditions do not seem as bad to the customers. He suggested that the District consider the largest conservative rate increase that can be implemented so that future rate increases are not as high.

Ms. Lorance explained that the Prop. 218 notice will indicate a rate increase up to a certain amount and the Board would later determine the exact rate increase which can be lower than the amount indicated on the notice.

Vice President Tobin moved to authorize staff to issue the Prop. 218 notice that indicates a potential rate increase up to 25%. President Costa seconded the motion. After discussion Vice President Tobin withdrew her motion.

Director Walters moved to authorize staff to issue the Prop. 218 notice that indicates a potential rate increase up to 15%. President Costa seconded the motion. After discussion Director Walters withdrew his motion.

The Board discussed the scenarios, reviewed some additional scenarios and would like to see information on rate increases at 9%, 15% and 19% in addition to the 3%, 6%, 12%, and 25% scenarios that were presented. The Board will review the additional scenarios at the August 12th Board meeting. In addition, the information requested from Director Miller will be provided and staff will review budgeted expenses. Mr. Durkin commented that deferring projects will have a positive impact on the budget but it may have a negative impact on operations, future costs, reputation and the ability of the District to fulfill its mission.

For information only; no action requested

III. Policy 3110.03 and Budget Process

Ms. Lorance informed the Board that it was requested at the last Board meeting to have the policy reviewed by the Legal Affairs Committee and also discussed at this workshop. In response to Director Walters' comment, Ms. Lorance explained that the three placeholder staff positions that are in the budget will be discussed at a future workshop.

President Costa confirmed that the Personnel Committee looked into how salaries affect pensions per his request.

In response to Director Rich's comment on the 10% above average that is in the policy and removing it, Ms. Lorance explained that prior to the 2006 compensation study the District's policy was to pay at the 75th percentile and for the 2006 compensation study the Board elected to do 10% above mean (average). She added that, since some classifications did not have enough comparators, the 75th percentile provided an artificially inflated number. The Board discussed and agreed that this needs to be reviewed by the Personnel Committee for a more in depth discussion.

For information only; no action requested

IV. PUBLIC COMMENT

There were no public comments.

President Costa called for Closed Session at 6:47 pm.

V. CLOSED SESSION

1. Conference with real property negotiators involving the transfer of up to 15,000 acre-feet of water conserved under the District's pre-1914 water right and by groundwater substitution to CVP contractors. The Board will provide direction to District negotiators, General Manager Shauna Lorange and Assistant General Manager Keith Durkin, on the price, terms of payment or both for the transferred water. The specific buyers and their representatives with whom the District will negotiate have not yet been identified, but those buyers and representatives will be publicly identified at the Board meeting or as soon thereafter as possible. (See Government Code sections 54954.5(b) and 54956.8.)

President Costa returned to Open Session at 6:55 pm.

VI. OPEN SESSION

There was no reported action during closed session.

Motion/Second to authorize the General Manager to sign the transfer agreement between San Juan Water District and Santa Clara Valley Water District for the transfer of up to 15,000 acre feet of 2015 unused pre-1914 water rights. The motion was approved by a unanimous vote of all directors.

VII. ADJOURN

The meeting was adjourned at 6:55 p.m.

EDWARD J. "TED" COSTA, President
Board of Directors
San Juan Water District

ATTEST:

TERI HART, Board Secretary

FY2015 - 2016 Draft Retail Budget

Keith Durkin
Kate Motonaga
San Juan Water District
August 6, 2015

Presentation Summary

- Budget Overview (Keith)
 - Budget Development
 - General Findings and Recommendation
- Draft FY15-16 Retail budget (Kate)
 - Rate and Reserve Scenarios
 - Proposed FY15-16 Retail Budget

FY14 - 15 Retail Budget Review

- Operating revenues ~\$750k below budget due to reduced water sales
- Non-operating revenues (connection fees, prop. tax, interest...) ~\$1M below budget
- Additional expenses from conservation impacts, PR, temporary help, etc. of ~\$300k
- End of year retail reserves >\$2M less than financial plan

Retail Budgeting Process

- Draft FY15-16 budget developed based on actual FY14-15 revenue and expenses
- Develop budget from “ground up”
- Maintain cost controls that were put in place over past year
 - Routine/basic O&M
 - “fleet management”
 - Repair vs. replace
 - CIP deferrals and smoothing
- Assume drought impacts will continue – no returning to normal

Retail Budget Assumptions

- Conservation will continue with 36% average reduction in water use through December
- Water usage will slowly begin to rebound in January, but will not get back to historical levels
- Conservation outreach and compliance expenses will continue through fall
- Normal O&M activities will continue through budget approval process
- Projects underway will continue; no new projects will begin without approved budget

Retail Budget Assumptions (cont.)

- General expenses will increase with CPI
- Actually costs used where known
- Cost of WS water supply will increase
- Include expense for temporary help
 - Customer service
 - Share of accounting staff
- Include placeholders for staffing:
 - Portion of HR Manager

FY15 - 16 Retail Budget Findings

- Drought related revenue shortfalls and increased expenses have created a \$2M+ “hole” in retail reserves
- Most expenses are remaining flat, but conservation efforts will continue to impact the budget; ~\$270,000 this year
- Although the retail CIP significantly influences the budget, the number of projects and expense is very modest for the size of the system; less than \$3M/year on average

FY15 - 16 Retail Budget Findings

- The reserve “hole” cannot be filled with small, steady rate increases
- Small increases may provide positive income, but hole in reserves gets larger
- The revenue/reserve shortfall can be made up with one very large rate increase
- The revenue/reserve shortfall can be made up with two large rate increases, and then increases to keep up with CPI

FY15 - 16 Retail Budget Recommendation

- Consider adopting a budget and implementing a (fairly) large rate increase that will require an additional increase next year, but will potentially allow budgets and increases to stabilize in subsequent years
- Only the FY15-16 retail budget and associated increase is up for discussion and approval

History of Rate Increases

Effective Date	% Increase	Additional Details
2/01/15	3%	Board approved a rate restructure to a uniform volumetric rate for all customer classes. Because the daily base charge will decrease and volumetric charge will increase, customers will be affected differently. The rate change will result in a 3% increase in revenue.
1/01/14	2%	Board approved a 2% increase to cover basic operating costs.
1/01/13	2%	Board approved a 2% increase to cover basic operating costs.
1/01/11	2%	Board approved in lieu of 5% increase recommended in our 5-year 2006 Financial Plan and Water Rate Study. 2% covers increase in basic operating costs.
1/01/10	7%	Salaries were frozen and incentives were eliminated from the 2009-2010 budget to keep rates as low as possible.

Questions

FY2015 - 2016 Draft Retail Budget

Keith Durkin
Kate Motonaga
San Juan Water District
August 6, 2015



Historical and Estimated Water Deliveries

Water Delivers to Retail Customers is based on the assumptions:

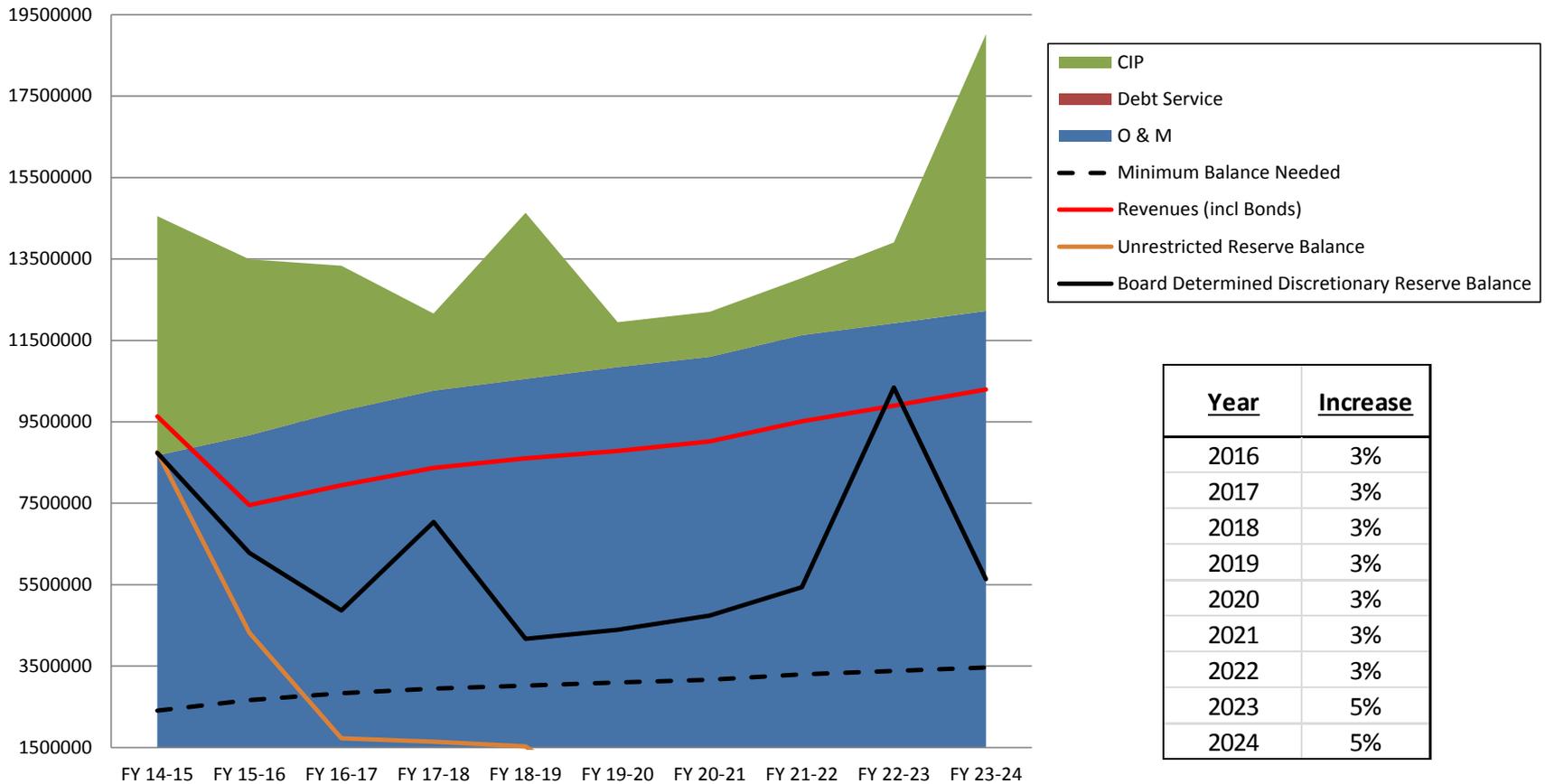
- we will hit our 36% reduction for the combined period of June thru Dec 2015
- and that recovery at an average of 20% for the rest of the year will start in January 2016 (slow because conservation methods will be long lasting)

	<u>CY 2015</u>	<u>CY 2014</u>	<u>CY 2013</u>
CCF	3,897,899	4,537,154	5,972,589
Acre Feet	8,948	10,416	13,711
% var to CY 2013	35%	24%	
	<u>FY 15-16</u>	<u>FY 14-15</u>	<u>FY 13-14</u>
CCF	4,158,853	3,088,029	5,430,370
Acre Feet	9,548	7,089	12,467
% var to FY 13-14	23%	43%	

Retail Reserve Graph Definitions

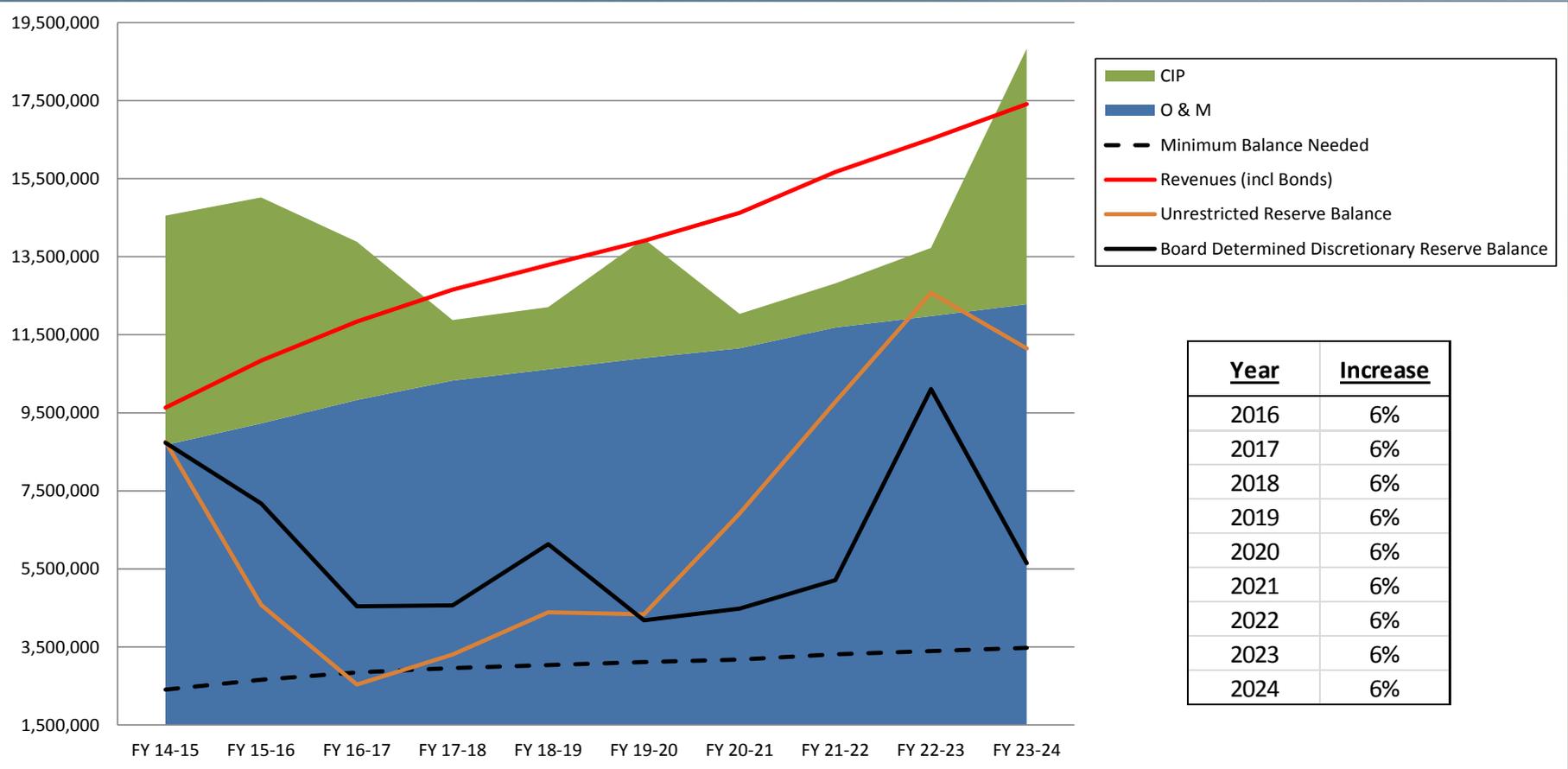
- **Minimum Balance Needed (dotted)**
 - Per Bob Reed's Financial Plan (apples to apples)
 - Operating Reserves (in case of an unplanned problem), Kokila Reserve (since this could result in possible borrowing) and Emergency Reserves.
- **Unrestricted Reserve Balance**
 - This graph does NOT include monies associated with Debt Service or Employee owed Compensated Absences
- **Board Determined Discretionary Reserve Balance (solid)**
 - The Reserve types and amounts determined by the Board for Operating, Kokila, Emergency, PERs, Connections and CIP

Retail Budget Reserve Projections Per Financial Plan



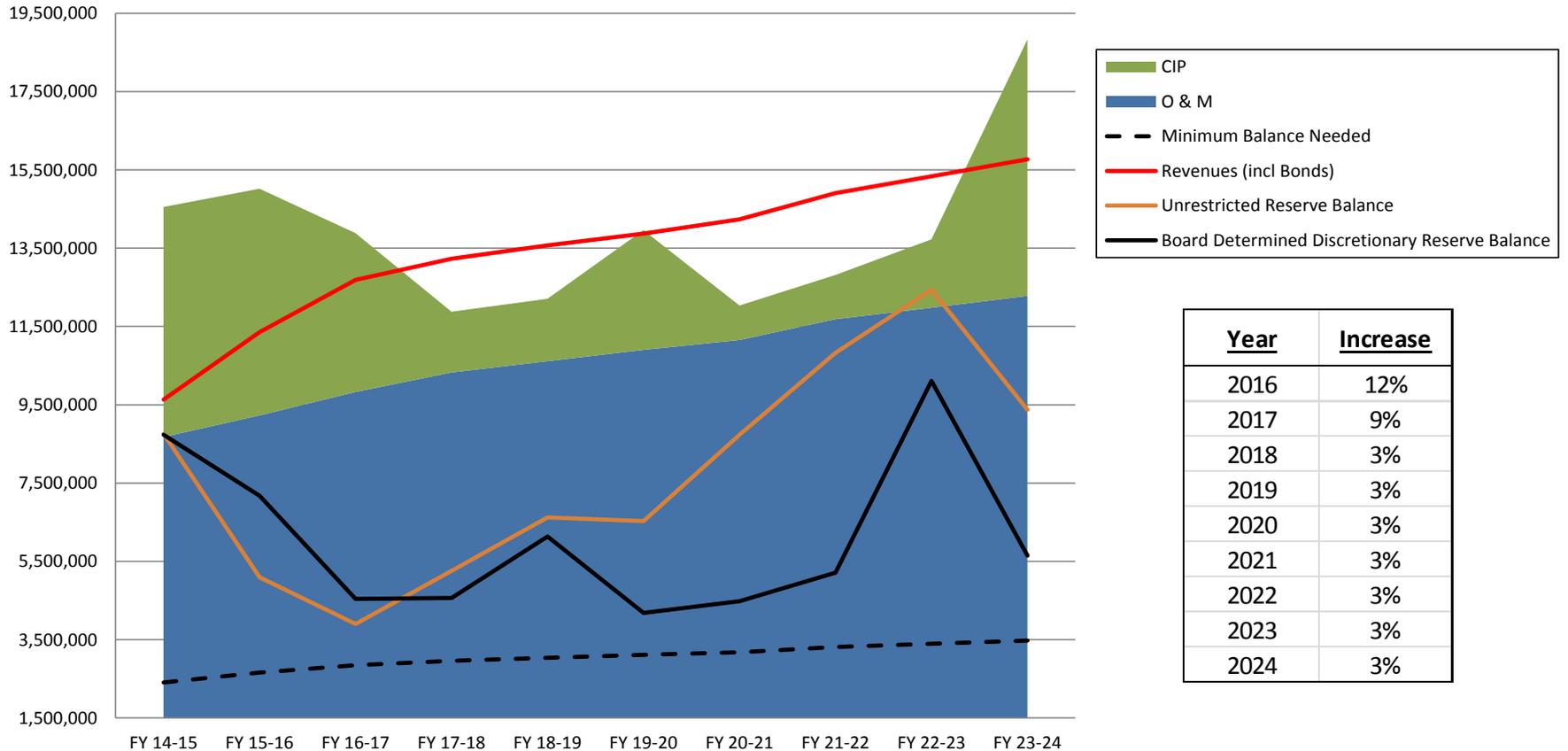
- Uses the increases assumed in the Financial Plan
- District is below Minimum Reserves (cash) by mid 2017
- District has no Reserves (cash) by the end of 2019
- Not fiscally viable

Retail Budget Reserve Projections at 6% Rate Review



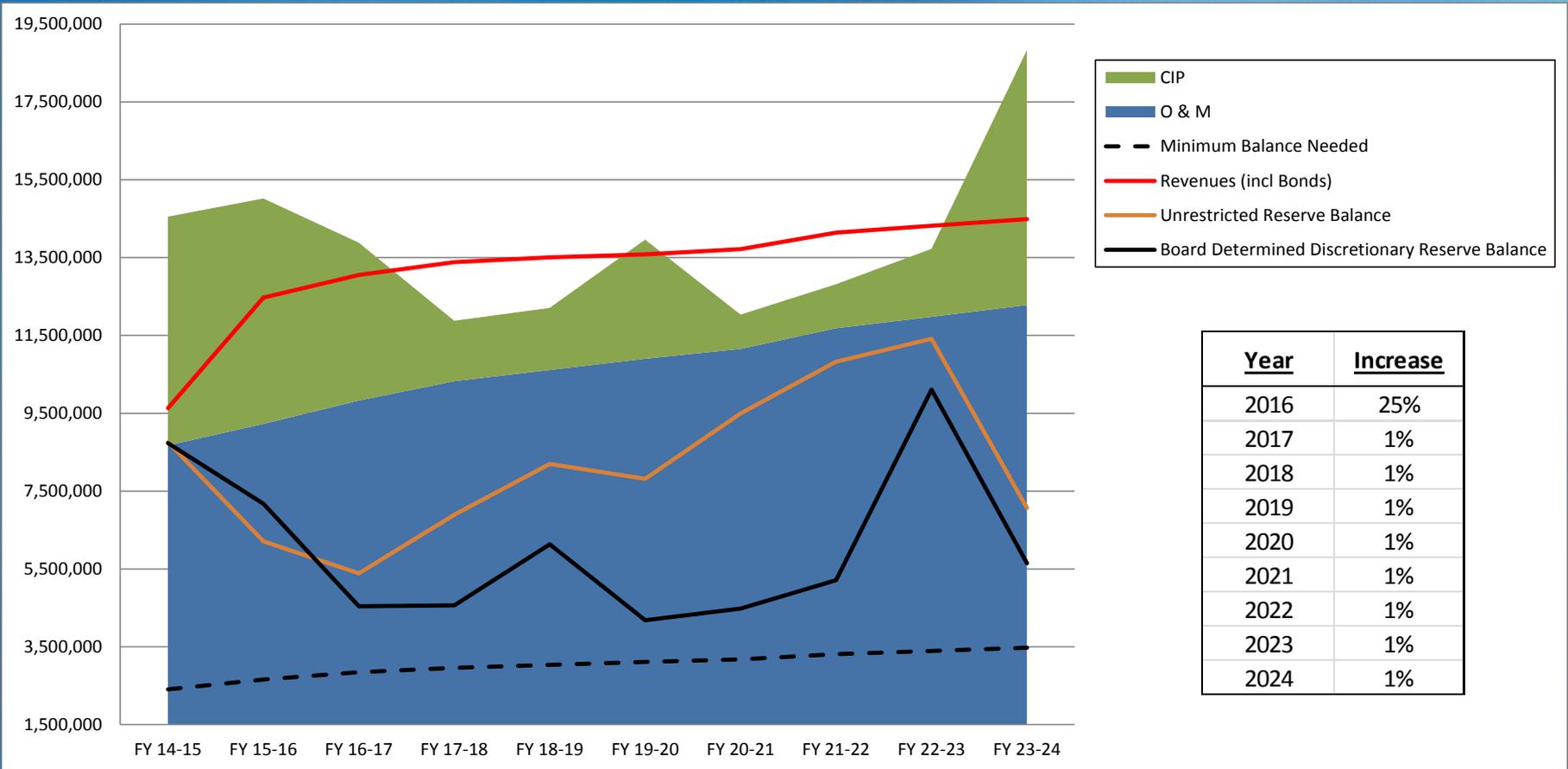
- Reserves do not recover for 5 years - fiscal risk
- Assumes AF recovery and no new additional CIP
- Average Customer Increase is \$2 per month

Retail Budget Reserve Projections Recommended



- Reserves (Cash) falls to \$3.6MM
- Reserves do not recover until mid FY 17-18 (3 years)
- Assumes AF recovery and no new additional CIP
- Average Customer Increase is \$4 per month

Retail Budget Reserve Projections to Maintain Reserves



- Average Customer Increase is \$7 per month

Retail (Draft) Budget Summary

	Actual FY 2013	Actual FY 2014	Projected FY 2015	Budget FY 2016	Variance FY 14-15 Projected
Operating Revenues	\$ 8,749,236	\$ 8,970,444	\$ 8,112,774	\$ 8,667,511	\$ 554,737
Operating Expenses	7,348,848	8,058,577	7,479,719	8,512,216	1,032,497
Net Income/(Loss)-Operations	\$ 1,400,388	\$ 911,867	\$ 633,055	\$ 155,296	\$ (477,759)
Net Non-Operating	(158,729)	1,922,086	1,510,453	1,120,177	(390,276)
Net Available Income	1,241,659	2,833,953	2,143,508	1,275,473	(868,035)
Debt Service Prinicipal	407,102	64,183	698,126	762,310	64,185
Net Available for Distribution	834,557	2,769,770	1,445,382	513,163	(932,220)

Staff Recommendation

Based on our discussion and review of long term projections and the anticipated effects on the Reserves:

- Staff recommends that the Board accept the Budget as presented with a \$45 annual (\$4 per month) average increase.
- Net Income after Debt Service of \$513,163

Discussion