

Fair Oaks Water District

2022 Budget and Financial Plan

As Prepared for the
Board Budget Workshop



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October 26, 2021

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Budget Policy

Fair Oaks Water District (FOWD) Policy Number 5000 calls for the District to develop an annual budget. FOWD Policy Number 5000 further states that the proposed annual budget be reviewed and amended at a Special Board Meeting held in October and adopted as amended at the November Regular Meeting of the FOWD Board of Directors.

Budget Overview:

The 2022 Budget and Financial Plan is a comprehensive plan for effectively funding the mission of the Fair Oaks Water District in accordance with specific Board direction. The primary purpose of the document is to provide the Board with an accurate picture of the total available resources, to set spending and program priorities, and to account for and allocate cash flows. The non-GAAP format of portions of the proposed budget accomplishes these objectives more clearly than would strict adherence to traditional accounting principles.

The annual budget process involves a detailed look at the District's strategic objectives, standards of service policies, and their relationships over a five-year forecast period. The budget process ensures that trends, which affect revenues and expenses, are identified and reconciled as early as possible.

Another important goal of the annual budget process is to inform our customers about the District's financial and operational activities. In addition, the annual budget should be a long range-planning tool that allows customers to quickly see the long-term trends that will affect the District in future years.

At first glance, the District's budget can seem complex because of the large number of line items and programs; however, the majority of the budget concerns itself with general revenues and expenses, compared to project related revenue and expenses. While most budgetary decisions are made on a unit-by-unit basis, it is helpful to start with a summary of the Board's direction to staff relative to the 2022 Budget and Financial Plan. The Board provided staff with the following general guidelines for the preparation of this 2022 Budget and Financial Plan:

1. Prepare a budget that includes the Boards commitment to developing groundwater supply.
2. Prepare a budget that addresses the cost impact of the Board approved Corporation Yard Redevelopment Project and Transmission Main Replacement Project.
3. Prepare a budget that addresses emergency water supply requirements of the District.

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4. Complete an analysis of the preliminary budget with no rate adjustment in 2022.
5. Do not borrow money in 2022.
6. Prepare a budget that complies with current District reserve policy.

2021 & 2022 Rate Structure Comparison:

Table 1 2021 & 2022 Water Rate Structures				
Description	2021 Estimated		2022 Budget	
	Water Sales	%	Water Sales	%
Fixed Service Charge	\$ 6,787,000	77%	\$ 6,795,600	77%
Commodity Charge	2,067,500	23%	2,038,500	23%
Total	\$ 8,854,500		\$ 8,834,100	

Ten-Year Rate Analysis:

Table 2 Rate Adjustments for the Current and Past Years									
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
0%	0%	0%	0%	0%	10%	0%	0%	0%	0%
Since 2013-2022, the Board approved one rate adjustment totaling a 10% increase in revenues from customers.									

2021 Budget Results:

Review 2021 budgeted vs. estimated year-end 2021 expenditures to identify significant variances.

Table 3 2021 Year-End Estimated Net Cash Result	
Item	Amount (\$)
Estimated Total Revenues	9,194,800
Estimated Total Expenditures	(11,520,900)
Total	(\$2,326,100)

Table 4 2021 Budget Summary Data			
Item	2021 Budget (\$)	2021 Estimate (\$) ^(a)	Variance (\$)
Total Revenues	9,920,700	9,194,800	725,900 ^(b)
Total Expenses	7,427,100	7,298,900	(128,200)
Capital Expense	7,133,300	4,222,000	(2,911,300) ^(c)
<i>Notes:</i>			
(a) 2021 Estimate \$ based on best available 2021 year-end data estimates.			
(b) \$719,000 New York Well Grant not received in 2021 & carried into 2022 budget.			
(c) 2021 variance mainly due to work in progress projects to be carried into 2022 budget. Projects reduced or deferred due to COVID-19 and impacts outside of FOWD control.			

2021 Financial Performance & 2022 Budget Analysis Summary:

A. 2021 Operating Budget

a. Staff has estimated that FOWD will be 2% under budget for 2021

B. 2022 Operating Budget

a. 2021 projected year-end operating expense is \$7,298,900

b. 2022 estimated operating budget is \$7,638,700

c. Staff estimated a 4.7% (\$339,800) net increase in operating cost for 2022

i. Net labor & benefits cost increase of \$80,900 (1.1%)

ii. SJWD purchased water cost increase of \$43,600 (0.6%)

iii. Water Supply Costs (Other) decrease of (\$71,700) (-1%)

iv. Online payment processing & professional service of \$92,600 (1.3%)

v. Water system maintenance & water efficiency of \$90,200 (1.2%)

vi. Board Expenses, District Fac. & Maint. & IT increase of \$71,300 (1%)

vii. Other net cost increases of \$32,900 (0.5%)

C. 2022 Income

a. 2022 estimated revenue is \$9,538,900

b. 2022 estimated operating budget is \$7,638,700

c. Staff has estimated income of \$1,900,200 for 2022

D. Customer Water Demand

- a. 2021 projected year-end customer water demand is 10,548 AF
- b. 2022 estimated year-end customer water demand is 10,392 AF

c. Staff has estimated a 1.5% decrease in customer water demand for 2022

E. Surface Water Purchase

- a. 2021 projected total surface water purchase is 6,664 AF
- b. 2022 estimated total surface water purchase is 7,201 AF (70% SW & 30% GW)

c. Staff has estimated an 8% increase in purchased SW for 2022

F. Five-Year Financial Summary (2022 – 2026)

- a. Board discussion based on data provided in accordance with Board direction.

2022 Proposed Capital Projects:

Review deferred projects and needed capital improvements to determine priorities. Estimate money required to fund the capital projects selected for 2022 work.

Table 5 2022 Capital Projects		
Project	Estimated Cost	Notes
Corp. Yard Project Design	\$199,300	Board Mandate
New York Well Project Design	\$175,000	Board Mandate
Skyway Well Drill & Equip.	\$1,103,800	Board Mandate
New York Well Drill & Equip.	\$400,000	Board Mandate
New York Well Treatment	\$75,000	Staff Recommended
Gum Ranch (Kenneth) Tank Site	\$137,500	Part of Corp. Yard Project

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Hazel Ave Phase III Construction	\$910,000	County Required
Replace Steel Main in NY Ave. S	\$1,159,600	Board approved
Replace Steel Main in NY Ave. N	\$799,900	Board Approved
T-Main Phase III	\$1,918,800	Board Approved
Two 24-Inch Isolation Valves	\$88,900	Staff Recommended
Total	\$6,967,800	

Reserve Analysis:

Review status of reserve funds. Analyze balances relative to designated purpose for each fund.

FOWD policy number 5050 addresses District reserve funds. The policy establishes reserve funds to minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated District expenses. The adequacy of the target reserve year-end balance ranges and annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised accordingly as necessary.

Table 6 FOWD Reserve Accounts Summary	
Total Reserve Estimate as of 12-31-21	\$8,187,000
Proposed 2022 Reserve Spending (\$)	(6,274,100)
Proposed 2022 Contingency (\$)	(200,000)
Projected 2022 Year-End Undesignated Reserve	\$1,712,900
Reserve Requirement for 2022	\$2,546,200

Budget Control:

The approved 2022 budget will be entered in the District's accounting system, which will provide online access for up to date financial information.

The Board of Directors, on the recommendation of the General Manager, establishes operating budgets and policy programs. The operational budget is then managed and controlled by District management.

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Operating budgets are controlled at the operating level by department management with overview by the General Manager. While line item expenditures are in some cases shown in the budget worksheets, the intent of this information is to provide internal budget monitoring controls for staff, and are not intended to be explicit appropriations by the Board of Directors. The Board may transfer appropriations from reserves projects during the fiscal year, if the need arises. This bottom line approach to budget management is intended to prioritize overall District spending, while making senior staff accountable for internal operations and expenditures.

Project budgets are adopted for project funds. These budgets may span a number of years, however our current accounting system does not allow multiple year project budgeting. Multiple year projects will be budgeted on a year-by-year basis. For each project, subsequent Board approval is required for approving bids and contracts, and for project cost increases over budget authorization.

Debt service budgets are established when the Board authorizes the debt issue. In 2022, the proposed budget has no debt.

The statistical sections of the budget are prepared on a full accrual basis, but include expenditures for capital outlay and the principal and interest portions of debt service, while non-cash expenditures such as depreciation and bad debt write off are excluded. Generally, revenues are recognized in the accounting period in which they become measurable and available, and expenditures are recognized in the period in which the liability is incurred.

Financial Planning:

The purpose of the District's financial planning is to demonstrate fiscal solvency over the long term, to provide early warning of adverse trends, and to improve financial planning and policy making for the allocation of budget resources. The financial plan utilizes detailed assumptions, such as population, new connections, infrastructure age, land area, parcel area, and current local economic trends. The financial plan's projections may or may not occur as predicted, depending upon changes in the economy, future service level changes, and regulatory mandates. During the operating year, District staff will update the budget model based on actual experience and the latest available information.



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General Financial State of FOWD Entering 2022

Annual Revenue	± \$9.2M
Annual Total Operating Expenses	± \$7.3M
Existing Debt	zero
Existing Debt Payment	zero
Existing Cash Reserve	± \$8.2M

Estimated General Financial State of FOWD Ending 2022

Annual Revenue	± \$9.5M
Annual Total Operating Expenses	± \$7.6M
Existing Debt	zero
Existing Debt Payment	zero
Existing Cash Reserve	± \$1.7M