

**BORREGO WATER DISTRICT**

**REVIEW OF DISTRICT STAFFING AND BUDGETS**

**INITIAL FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

**PREPARED BY:**

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## PURPOSE

This study was conducted at the request of the Borrego Water District (BWD)'s Board of Directors to perform an independent review of District staffing and operating and maintenance budgets.

To complete this study, a site visit to BWD headquarters was arranged on March 23, 2011. Interviews of key personnel were conducted and a tour of office and warehouse facilities made. Both prior to and subsequent to the March 23<sup>rd</sup> meeting, District staff provided a wide range of technical and budgetary information. This information, together with the onsite interviews and observations, provide the basis for this review.

A reference list is included at the end of this report.

## BACKGROUND

Borrego Water District is a community water system formed in 1962 by an election of the landowners in Borrego Valley as a public agency under the California Water District Act of the Water Code. The purpose of the agency is to provide water, sewer, and flood control services within its service area. The Borrego Water District is located in the city of Borrego Springs, CA in San Diego County. The physical address is 806 Palm Canyon Drive, Borrego Springs, CA 92004.

Borrego Water District acquired neighboring Borrego Springs Water Company in 1997 and in 2009 acquired Borrego Springs Park Community Services District. Borrego Water District is now comprised of 5 Improvement Districts.

Borrego Water District operates facilities in four pressure zones:

- 1) 800 feet – Served by ID3 and includes the Deep Well Trail subdivision, the Rancho Borrego area, and La Casa del Zorro Resort
- 2) 880 feet – Served by ID4 and includes the previous Borrego Springs Water Company, the majority of the Borrego Springs community, and the newly incorporated Borrego Springs Park Community Services District area
- 3) 900 feet – Served by ID1 and includes the Montesoro subdivision
- 4) 1,000 feet – Served by ID1 and includes the Montesoro subdivision

Borrego Water District has recently expanded its infrastructure due to the consolidation with Borrego Springs Park Community Services District. The improvements include a 10" pipeline intertie between the two systems, a booster pump installed on the 10" Intertie to deliver water from ID5-5 to Borrego Water District Country Club Reservoir, a 6" pressure reducing valve to deliver emergency water from Borrego Water District Country Club Reservoir to Borrego Park Community Services District, two inline water

meters to measure water quantity delivered from the booster pump to Borrego Water District Country Club Reservoir and from Borrego Water District Country Club Reservoir to Borrego Park Community Services District, and SCADA controls for operation of the entire system.

Borrego Water District does not treat or purchase any surface water. Groundwater supplies for Borrego Water District consists of agricultural and domestic wells.

The District currently provides the following services:

#### WATER SERVICE

- Serves 2,200 residential and commercial customers (permanent population of 3,300), an annual supply of 2,800 acre-feet of water from 12 wells
- Maintains 90 miles of transmission and pipe distribution lines
- Manages over four million acre-feet of reservoir storage
- Operates three water supply booster facilities
- Implements a Groundwater Management plan for the valley

#### SEWER SERVICE

- Maintains a waste water reclamation plant that serves the community and could provide non-potable reclaimed water for golf courses in the future
- Maintains trunk sewer lines to Montesorro (aka Rams Hill), Borrego Ranch, the Elementary School and seven miles along Palm Canyon Drive, serving the commercial center of Borrego Springs

#### FLOOD CONTROL SERVICES

- Has flood control authority, which is currently exercised only at Montesorro

#### GNAT CONTROL

- Maintains eye gnat control programs for the valley

#### TRASH

- Provides trash collection service to the ID-5 area (Club Circle)

## PARKS

- Operates and maintains the Club Circle Golf Course
- Works with other community organizations regarding service area recreation opportunities

## HEADQUARTERS FACILITIES

A brief tour of the general office building was conducted. This recently constructed (7 year old) building houses the administrative offices, board meeting room and District records. There are offices for six individuals, including the general manager, administrative manager, operations manager, customer service representatives and administrative assistant.

A tour of the warehousing and corporate yard operations was also conducted. The warehouse is stocked to respond to all likely construction and/or emergency repair needs. Facilities include a fueling station and portable emergency electrical generation equipment. The facilities are consistent with operating water and wastewater operations in a relatively remote setting.

## STAFFING

The Borrego Water District serves retail customers through 2,200 potable water connections and 1,075 sewer connections over a 50 square mile service territory. The district has also recently taken over the Circle Club Golf Course operations. These services require staffing for the following tasks:

- Water system operations
- Water system pipeline construction
- Cross-connection protection
- Wastewater system operations
- Engineering
- AutoCAD
- Regulatory compliance
- Finance/treasury
- Safety training
- General management
- Customer service
- Billing
- Inventory control
- Purchasing
- Board interface
- Grounds and facilities maintenance

- Human resources
- Meter reading
- Public outreach
- Information technology
- Administration

Any efficiently operated public water district is compelled to analyze the benefits of either performing these functions in-house, or contracting for these services. Most districts use some combination of in-house and contracted resources. An obvious example of contracting out for a district of BWD's size is engineering services. An in-house engineering staff is less critical to day-to-day operations than, for example, certified water and wastewater operators and engineering technicians.

Of note with BWD is that the District's remote location changes the usual economics of operation. For example, construction of pipelines to extend to new customers or repair of damaged facilities is often contracted out by other Districts. However, maintaining construction crews in-house is more efficient and economical for BWD. Similarly, providing cross-connection certifications with BWD staff saves customers money.

Taken linearly, the BWD would staff as follows:

- 1 General manager
- 1 Administrative/human resources manager
- 2 Water system operators
- 2 Wastewater system operators
- 1 Cross-connection specialist
- 1 Regulatory compliance/safety officer
- 1 Purchasing agent/planner
- 1 Engineering technician
- 1 Board secretary
- 1 Water quality technician
- 1 Billing clerk
- 1 Meter reader/utility worker
- 1 Groundskeeper (golf course)
- 2 Field supervisors\*
- 4 Utility workers\*
- 1 Facility maintenance worker
  
- 22 Total staffing

\*comprise two construction crews

The above staffing scenario is not sustainable financially for BWD, as it would result in a nearly 50 percent increase in labor costs. As well, by necessity, staff responsibilities in smaller water and wastewater operations reflect three requirements: 1) complimentary staff responsibilities are consolidated into one position, 2) supervisors must exercise a

wider span of control, and 3) a systematic process of cross-training is needed to back up critical positions.

CURRENT ORGANIZATION (15 positions):

- I General Manager (vacant)
  - A. Administrative assistant
  - B. Operation Manager
    - 1. Utility Services Supervisor (construction)
      - a. Utility workers (4)
    - 2. Waste Water Supervisor
    - 3. Water System Supervisor
      - a. Utility worker
      - b. Construction foreman
      - c. Golf course foreman
  - C. Administrative Manager
    - 1. Customer service representative (2)

A review of BWD job descriptions clearly demonstrates the concept of consolidating complementary duties into one position. A good example is the position of Water System Supervisor. Duties include not only all of the traditional administrative and field responsibilities, but also safety training, regulatory compliance, and technical support (AutoCAD, mapping, new development) as well.

Job descriptions also indicate a formal system of primary job duties plus either training requirements to qualify for additional responsibilities and/or duties that back up another employee.

Addressing the element of span of control, an opportunity for greater efficiency does exist by combining the general manager and operations manager positions, resulting in the following proposed organization:

- I General Manager/Operations Manager
  - A. Administrative Assistant
  - B. Administrative Manager
    - 1. Customer service representative (2)
  - C. Utility Services Supervisor (construction)

1. Utility worker (4)
- D. Waste Water Supervisor
- E. Water System Supervisor/Compliance Manager
  1. Utility worker
  2. Construction foreman
  3. Golf course foreman

The immediate annual budget savings with this consolidation is over \$200,000.

### STAFFING COSTS

A review of BWD staffing costs was conducted, together with a benchmark comparison with southern California water agencies. For budget year 2010-2011 a total of 16 positions are included in the BWD operating budget, including the vacant general manager's billet. For this analysis, that vacant position has been deleted.

Total direct labor excluding part-time, overtime or miscellaneous charges is \$811,508. Part-time, overtime, miscellaneous add another \$62,400.

Annual CALPERS retirement contribution by the District is \$182,833 and net District medical benefit payments are \$237,733. Taken together, retirement and medical payments represent a 52 percent loading on direct labor. Of note, recently the District elected to enhance the CALPERS participation to the 3% at 60 risk pool.

To benchmark BWD salaries, 20 southern California agencies were surveyed and median salary ranges developed for comparison.

Each BWD position was matched with the appropriate benchmarked position. When the current base salaries of the 15 BWD staff positions, in aggregate, were compared to median base salaries of the 20 agency sample, on average, BWD salaries were 85 percent of the sample median levels. Expressed differently, BWD salary levels would have to be increased by nearly 18 percent to match sample median levels.

Benefit packages (medical and retirement) vary from agency to agency. A broad rule-of-thumb is: As a percentage of direct labor, benefits range from 40 to 60 percent. As previously noted, BWD benefits represent 52 percent of direct labor.

To compare more accurately with the 20 agency sample, an adjustment to compare against median salaries should be made, as well as an adjustment in CALPERS contribution (i.e. increasing by 17.6 percent.) Therefore, the CALPERS contribution is adjusted upward from \$182,833 to \$215,012. Medical benefit cost of \$237,733 remains the same, yielding a total BWD cost of \$452,745.

When this adjusted annual benefits cost is compared to the sample median salaries (\$931,404), benefits represent 49 percent of direct labor. This loading factor falls within the average for southern California water agencies.

## BUDGET REVIEW

BWD annual budgets for 2009 and 2010 were reviewed against the District's audited year-end financials for June 30, 2010.

Operating losses for 2009 and 2010 were (\$526,511) and (\$792,489) respectively. Operating revenues remained relatively flat year over year with 2009 revenues at \$2,855,046 and 2010 revenues at \$2,922,996. And operating expenses rose year over year by 10%, from \$3,381,557 in 2009 to \$3,715,485 in 2010.

Initial observations regarding the budget performance:

- Revenue estimates, by category (water, sewer, assessments, other) showed significant variances from actuals. However, overall operating revenue tracked with actuals within five percent (under) on average for 2009 and 2010.
- Expense estimates, on the other hand, were consistently off the mark in both 2009 and 2010. Actual expenses in both years exceeded original budgets by 18 percent. This reflects a systemic flaw in the budgeting process and budget management.
- Budget categories worth examining more closely include:
  - Maintenance expense (up 31 percent, 2009 to 2010)
  - Accounting, legal and audit services (up 51 percent, 2009 to 2010)
  - Contingency fund (created in 2010)

## CONCLUSIONS AND RECOMMENDATIONS

The BWD, from a physical plant and operating utility perspective, appears to be an efficiently run operation. Technical and field personnel are trained and certified for their respective job duties. Proper equipment and materials are provided to operate and maintain the water and wastewater systems. Appropriate technology systems such as supervisory control and data acquisition (SCADA) are in place.

Staffing levels are appropriate for the size, scope and geographic location of the District. Division of labor has been thoughtfully organized. Opportunity does exist to flatten the organization by combining the general manager and operations manager positions.



A comprehensive ten-year capital improvement plan has been developed with the assistance of an outside engineering consultant. And, annual construction projects are consistent with the plan recommendations.

Of concern, however, is the development, monitoring and active management of the District's annual operating budget. Expense projections in 2009 and 2010 were consistently overshot by more than \$500,000. In 2010 the variance was in spite of the insertion of a \$157,000 contingency line item.

Based upon the foregoing, the following recommendations are offered:

- Combine general manager and operations manager positions for annual savings of approximately \$200,000. Engineering services, previously provided by the former general manager, should be contracted out on an as-needed basis.
- Reassess providers of accounting, legal and audit services
- Institute active budget management practices, including the use of more realistic operating expense estimates, monthly tracking of all budget line items (with variance reporting to the Board of Directors) and budget revision recommendations to the Board on a quarterly basis. Consider additional memorandum accounting to track critical costs. Incorporate budget performance standards into employee evaluations.
- Establish operating, capital replacement and other financial reserve policies and incorporate into the annual budgeting process
- Recognize that recent years' budget shortfalls reflect an unsustainable financial future. Initiate a 218 process to increase annual operating revenue
- Retain a benefits analyst to assess the advisability of the District's continued participation in CALPERS 3% at 60 risk pool.

## REFERENCES

Borrego Water District Organization Chart (June, 2009)

Borrego Water District Rates (July, 2004)

Borrego Water District Audited Financial Statements (June 30, 2010)

Borrego Water District Income Budgets (FYE 2009, 2010, 2011)

Borrego Water District Job Descriptions (13 total)

Borrego Water District Financial Situation (undated draft)

Borrego Water District Strategy to Address Overdraft (undated draft)

CALPERS Worksheet (FYE 2012)

General Ledger Trial Balance (February 28, 2011)

Health Benefits Analysis, Budget (FYE 2012)

Interview Notes with Borrego Water District Staff (March 23, 2011)

Salary/Wage Scale (FYE 2012) Salary Budget Worksheet

Staff Report – Borrego Water District, 5-10 year Capital Improvement Plan (CIP) Justification, Borrego Water District Board of Directors (February 15, 2010) Jerry Rolwing, David Dale

## **BRIAN J. BRADY, P.E.**

Brian J. Brady has over 35 years of management and engineering experience in both the public and private sectors of western electric and water utilities. He currently maintains an independent management consulting practice, focusing on asset valuation (including water rights) and strategic operations of water and power utilities.

Dr. Brady most recently served as the general manager of the Imperial Irrigation District (IID), a water and power authority spanning 6,500 square miles in interior southern California. With water rights of 3.1 million acre-feet, IID is the largest irrigation district in the United States, and is the third largest public sector electric utility in California (1000 MW peak demand.)

Within IID water operations, Dr. Brady positioned the District to ensure the success of the history's largest agricultural to urban water transfer, and served as the chief negotiator with Metropolitan Water District, California Department of Water Resources and the U.S. Bureau of Reclamation.

Dr. Brady is the past general manager of both the Rancho California Water District and the Water Replenishment District of Southern California. He also served as the assistant general manager of Anaheim's Public Utility Department (responsible for electric utility operations), and the Vice President of subsidiary marketing operations within Southern California Edison. He is past President of the Board of Directors of the Irvine Ranch Water District (IRWD), and is a former board member of the Orange County Sanitation District (OCSD). It was while serving on OCSD's executive steering committee that Dr. Brady lead a successful coalition of the Board to mandate comprehensive waste water treatment before ocean disposal, resulting in a \$1.9 billion infrastructure improvement program.

In addition to the foregoing, Dr. Brady brings additional experience in both public agencies and private corporations, providing expert testimony before state and federal agencies on matters of utility operations and valuation in rate proceedings, and appearing before both U.S. House and Senate committees in support of western regional water projects.

A registered Civil Engineer, Dr. Brady earned his BSE degree in Water Resource Management from Loyola University of Los Angeles (now Loyola Marymount University)'s College of Engineering. His MBA, with an emphasis in Finance, is from the University of Southern California (USC)'s Marshall School of Business. He received his Ed.D, with an emphasis in Organizational Leadership, from Pepperdine University's Graduate School of Education and Psychology.

## RESUME

**Brian J. Brady, P.E.**

### PROFESSIONAL EXPERIENCE

#### Principal

#### **Brian J. Brady & Associates (2000- )**

Provide management consulting services, focusing on asset valuation (including water rights) and strategic operations of both public and private water and power utilities. Clients have included the Water Replenishment District of Southern California (WRD), the Inland Empire Utilities Agency (IEUA), the Horizon Energy Group, Chevron Texaco, California Portland Cement, Vulcan, Exxon Mobil, Municipal Water District of Orange County, the Central and West Basin Municipal Water Districts, Conaway Preservation Group and several private investors.

#### General Manager

#### **Imperial Irrigation District (IID) (2008-2011)**

As the appointed CEO by a five-member elected board of directors, provided executive leadership to the IID electric and water operations within southern California's Imperial and Coachella Valleys. Annual operating and capital budgets exceeded \$850 million, with a staff of 1,400. Implemented the landmark Qualification Settlement Agreement (QSA) among the IID, Metropolitan Water District and the San Diego Water Authority, and spearheaded major initiatives to develop renewable energy projects.

#### General Manager

#### **Rancho California Water District (RCWD) (2003-2007)**

Reporting to a seven-member Board of Directors, was responsible for operations of the Temecula-based district's water, wastewater and reclamation divisions. Continued rapid expansion in the municipal, industrial and agricultural business segments during 2003-2004 fiscal year resulted in a nearly 14 percent increase in overall system demands. In the spring of 2004, in conjunction with major new and refunding bond issues, directed the presentations to the key bond rating agencies, with a resulting district upgrade from A- to AA. Lead an aggressive integrated water resources strategy to meet system build out forecasts.

#### Chairman, CEO

#### **Dominguez Services Corporation (1995-2000)**

As authorized by the Company's Board of Directors, was responsible for overall corporate policy, strategy and operations of Dominguez Services Corporation's utility and non-utility business units. In the first thirty-six months with the Company, expanded water utility operations into northern California and increased unregulated water brokering and subsidiary operations. In the same period, the Company's market capitalization rose by more than 250%, and annual shareholder returns averaged 33%. In November of 1998, completed merger negotiations with California Water Service, attaining the highest asset valuation of any U.S. investor-owned water or gas utility at that time.

#### Assistant General Manager

#### **Public Utilities Department, City of Anaheim (1992-1995)**

Directed the operation of the City's electric utility, gross annual revenues of \$250 million. Responsible for electric integrated resource planning, acquisition and scheduling; demand side management; engineering functions; electric field construction; environmental services; commercial and industrial business development; and both electric and water system dispatch operations.

**Vice President and General Manager**      **Energy Services Inc. (1988-1992)**

Chief Operating Officer of a wholly-owned subsidiary of Southern California Edison Company. Developed and positioned the operation to provide utility related services (pump/turbine/motor repair, engineering support, cogeneration operating services, utility R & D technology transfer, fuel oil storage leasing contracts, privatized maintenance services). Client base developed in the first three years of operation included over 200 companies in the U.S., Canada, Mexico and the Pacific Rim.

**Manager, Energy Management**      **Southern California Edison Company (1983-1988)**

Developed and marketed new electric load management programs and electric rate options to industrial and commercial customers. Assisted local governmental agencies in analyzing and economizing energy use. Responsible for developing and marketing end-use electro-technologies (the forerunner to Edison's "CTAC") to assist industrial and commercial customers in becoming more competitive in the marketplace.

**Manager of Valuation**      **Southern California Edison Company (1980-1983)**

Manager of department of engineers, accountants, and other technical staff providing economic, depreciation and cost of service studies; valuations and base data for rate cases. Served as expert rate case witness before federal and state regulatory commissions. As the company's Chief Valuation Engineer, certified to financial institutions the fair value of company operating assets and real estate for trust indenture purposes.

**EDUCATION**

**Ed.D.**, emphasis: Organizational Leadership

Pepperdine University's Graduate School of Education & Psychology

Doctoral research: Skill development for appointed and elected water officials

**MBA**, emphasis: Finance

University of Southern California's Marshall School of Business

**BSE**, emphasis: Water Resource Management

Loyola University of Los Angeles (now Loyola Marymount University)'s College of Engineering

**Additional Graduate level studies:** Massachusetts Institute of Technology, Stanford University, Western Michigan University, United States International University

**ELECTED AND APPOINTED OFFICES**

Member, Board of Directors	Irvine Ranch Water District (1998-2004)
Member, Board of Directors	Orange County Sanitation District (2001-2004)
Member, Executive Committee	California Transmission Planning Group (2009-2011)
Member, Board of Governors	California Municipal Utilities Association (2009-2011)
Member, Board of Directors	Large Public Power Council (2008-2011)
Member, Board of Directors	National Public Projects Coalition (2004-2008)
Member, Board of Directors	Association of Groundwater Agencies (2000-2001)
Member, Board of Directors	National Association of Water Companies (1997-2000)

Member, Executive Council	California Water Association (1995-2000)
Member, Board of Directors	Southern California Public Power Authority (1992-1995; 2008-2011)
Member, Board of Directors	Association of California Water Agencies (2010-2011)
Member, Executive Committee	Western Systems Power Pool (1992-1995)
Member, Executive Committee	Western Systems Coordinating Council (1992-1995)
Member, Board of Directors	National Fuel Cell Commercialization Group (1992-1995)
Member, State Legislative Committee	Association of California Water Agencies (2006-2008)

### **OTHER CREDENTIALS**

Registered Civil Engineer, State of California	
Member, American Society of Civil Engineers	
Member, Phi Delta Kappa (international honor society in education)	
Instructor, Economics and Ethics, Graduate Business Program	University of La Verne (1986-1991)
Demand-side Management Planning Advisor	Electric Power Research Institute (1987-1989)
Lecturer	Cal Tech, Industrial Relations Center (1978-1982)