

**BORREGO WATER DISTRICT**

**FISCAL YEAR 2016-2017**

**ANNUAL BUDGET**

**ADOPTED**

**June 9, 2016**

**SUBMITTED BY:**

**JERRY ROLWING  
GENERAL MANAGER**

**TO:**

**BOARD OF DIRECTORS**

**BETH HART  
PRESIDENT**

**LYLE BRECHT  
VICE-PRESIDENT**

**JOE TATUSKO  
SECRETARY/TREASURER**

**LEE ESTEP  
DIRECTOR**

**RAYMOND DELAHAY  
DIRECTOR**

**FISCAL YEAR 2016-2017  
ANNUAL BUDGET  
ADOPTED  
JUNE 9, 2016**

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# **BORREGO WATER DISTRICT**

June 9, 2016

Board of Directors:

This Fiscal Year 2016-2017 consolidated budget was prepared in compliance with the laws of the State of California and reflects the Board of Directors' (Board) goals and priorities and the District's strategic plans by which to achieve these goals and priorities.

The Operations and Management (O&M) and Capital Improvements Projects (CIP) and non-O&M expenses budgets contained in this FY 2017 consolidated budget package represent management's best assessment of a budget to successfully accomplish the District's goals and priorities for FY 2017. This budget document will be used as a guideline to address the dynamics of the District's operations and the economic challenges of maintaining the District's financial stability and enabling the District to supply dependable potable water and sewer and wastewater treatment to its customers.

The budget shows total revenues for FY 2017 projected to be approximately \$4,170,507. This represents a projected revenues increase of 10% from FY 2016 projected revenues.

The FY 2017 projected revenues assumes that monthly base service rates will decrease approximately 20% (all meter sizes); residential water rates for Tier 1 (< 7 units/mo) will increase from \$2.42 to \$3.16/unit in FY 2017; Tier 2 (> 7 units/mo) = \$3.48/unit in FY 2017; commercial water rates will increase from \$2.42 to \$3.35/unit in FY 2017; and revenue from sewer rates will increase 9,4,4,4,4% between FY 2017-FY 2021

Included in this budget package are the proposed Board Resolution to adopt and approve the FY 2017 budget; a detailed revenue and operations and maintenance expenses budget; CIP budget with associated justification from the District's consulting engineer, non-CIP budget items; an updated District's reserves policy; and a projected cash flow analysis for the next eight fiscal years that includes the proposed rate increases.

Thank you for your consideration.

Sincerely,

Jerry Rolwing  
General Manager



I, Joseph Tatusko, Secretary of the Board of Directors of the Borrego Water District, do hereby certify that the foregoing resolution was duly adopted by the Board of Directors of said District at a regular meeting held on the 9<sup>th</sup> day of June, 2016, and that it was so adopted by the following vote:

AYES: DIRECTORS:  
NOES: DIRECTORS:  
ABSENT: DIRECTORS:  
ABSTAIN: DIRECTORS

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Secretary of the Board of Directors of  
Borrego Water District

STATE OF CALIFORNIA )  
                                  ) ss.  
COUNTY OF SAN DIEGO )

I, Joseph Tatusko, Secretary of the Board of Directors of the Borrego Water District, do hereby certify that the above and foregoing is a full, true and correct copy of RESOLUTION NO. 2016-06-01, of said Board, and that the same has not been amended or repealed.

Dated: June 9, 2016

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Secretary of the Board of Directors of  
Borrego Water District

	C	BS	BW	BZ	CA	CB
1	<b>BWD</b>	<b>5/27/2015</b>	<b>CASH FLOW</b>			
2	<b>BUDGET CASH FLOW</b>	<b>ADOPTED</b>	<b>YTD + PROJ MONTHS</b>	<b>Rate Adjustment</b>	<b>PROPOSED</b>	<b>PROJECTED</b>
3	<b>FY 2016-2017</b>	<b>BUDGET</b>	<b>PROJECTED</b>	<b>FY 2017</b>	<b>BUDGET</b>	<b>BUDGET</b>
4		<b>2015-2016</b>	<b>2015-2016</b>		<b>2016-2017</b>	<b>2016-2017</b>
5	<b>REVENUE</b>					
6	<b>WATER REVENUE</b>					
7	Residential Water Sales	932,150	860,494	265,253		884,178
8	Commercial Water Sales	128,750	121,690	37,144		123,812
9	Irrigation Water Sales	143,170	131,919	40,666		135,553
10	GWM Surcharge	117,420	109,504	33,683		112,276
11	Water Sales Power Portion	373,890	348,826	106,860		356,199
14	<b>TOTAL WATER COMMODITY REVENUE:</b>	<b>1,645,554</b>	<b>1,520,770</b>	<b>483,606</b>	<b>30% increase</b>	<b>1,612,019</b>
15						
16	Readiness Water Charge	1,335,180	1,329,121	(332,606)		1,330,424
18	RH Golf Course surplus capacity lease	0	9,630			0
19	Meter Installation	0	8,627			0
21	Reconnect Fees	1,700	3,310			2,380
22	Backflow Testing/installation	6,500	5,600			6,500
23	Bulk Water Sales	0	257			0
24	Penalty & Interest Water Collection	9,600	14,050			10,000
25	<b>TOTAL WATER REVENUE:</b>	<b>2,998,534</b>	<b>2,872,851</b>	<b>(332,606)</b>	<b>25% decrease</b>	<b>2,961,323</b>
26						
27	<b>PROPERTY ASSESSMENTS/AVAILABILITY CHARGES</b>					
28	641500 1% Property Assessments	64,000	63,081			65,000
29	641502 Property Assess wtr/swr/fld	60,000	106,654			106,212
31	641501 Water avail Standby	84,000	81,830			82,467
33	641504 ID 3 Water Standby (La Casa)	34,000	33,328			33,722
34	641503 Pest standby	17,000	17,619			17,885
35	<b>TOTAL PROPERTY ASSES/AVAIL CHARGES:</b>	<b>259,000</b>	<b>302,513</b>			<b>305,286</b>
36						
37	<b>SEWER SERVICE CHARGES</b>					
38	Town Center Sewer Holder fees	171,240	172,351	220,476	27.5% increase	172,922
39	Town Center Sewer User Fees	39,960	40,276	62,432	53.3% increase	40,726
40	Sewer user Fees	333,900	332,772	(76,445)	23% decrease	332,370
44	<b>TOTAL SEWER SERVICE CHARGES:</b>	<b>545,100</b>	<b>545,767</b>	<b>206,463</b>		<b>546,387</b>
45						
46	<b>OTHER INCOME</b>					
50	Miscellaneous Income (net csd fee/JPIA rebate/check free)		1,429			0
51	Water Credits income/Gain on Asset Sold		8,000			0
55	Interest Income	80	66			49
56	<b>TOTAL OTHER INCOME:</b>	<b>80</b>	<b>9,495</b>			<b>49</b>
57						
58	<b>TOTAL INCOME BUDGET:</b>	<b>3,802,713</b>	<b>3,784,815</b>	<b>357,463</b>	<b>4,170,507</b>	<b>3,813,045</b>
59						

	C	BS	BW	BZ	CA	CB
1	<b>BWD</b>	5/27/2015	<b>CASH FLOW</b>			
2	<b>BUDGET CASH FLOW</b>	<b>ADOPTED</b>	<b>YTD + PROJ MONTHS</b>	<b>Rate Adjustment</b>	<b>PROPOSED</b>	<b>PROJECTED</b>
3	<b>FY 2016-2017</b>	<b>BUDGET</b>	<b>PROJECTED</b>	<b>FY 2017</b>	<b>BUDGET</b>	<b>BUDGET</b>
4		<b>2015-2016</b>	<b>2015-2016</b>		<b>2016-2017</b>	<b>2016-2017</b>
60	<b>EXPENSES</b>					
61						
62	<b>MAINTENANCE EXPENSE</b>					
63	R & M Buildings & Equipment	185,000	139,236			185,000
64	R & M - WWTP	132,000	52,006			150,000
65	Telemetry	10,000	12,645			10,000
66	Trash Removal	4,000	3,642			4,000
67	Vehicle Expense	18,000	21,368			18,000
68	Fuel & Oil	25,000	22,301			25,000
69	<b>TOTAL MAINTENANCE EXPENSE:</b>	<b>374,000</b>	<b>251,197</b>			<b>392,000</b>
70						
71	<b>PROFESSIONAL SERVICES EXPENSE</b>					
72	Tax Accounting (Tausig)	3,000	2,555			3,000
73	Administrative Services (ADP/Bank Fees)	6,000	5,231			3,500
74	Audit Fees	14,439	14,439			14,995
75	Computer billing	9,900	6,835			12,000
76	Consulting/Technical/Contract Labor	1,200	450			1,200
77	Engineering	35,000	58,439			35,000
78	District Legal Services	30,000	14,400			30,000
79	Testing/lab work	12,000	16,761			12,000
80	Regulatory Permit Fees	33,000	43,958			46,000
81	<b>TOTAL PROFESSIONAL SERVICES EXPENSE:</b>	<b>144,539</b>	<b>163,068</b>			<b>157,695</b>
82						
83	<b>INSURANCE/DEBT EXPENSE</b>					
84	ACWA Insurance	59,000	56,648			60,000
85	Workers Comp	16,000	16,398			16,800
86	COP 2008 Installment	254,525	254,525			253,113
87	Viking Ranch Debt Payment	143,312	143,422			143,312
88	<b>TOTAL INSURANCE/DEBT EXPENSE:</b>	<b>472,837</b>	<b>470,993</b>			<b>473,225</b>
89						
90	<b>PERSONNEL EXPENSE</b>					
91	Board Meeting Expense (board stipend/board secretary)	16,500	14,886			18,500
92	Salaries & Wages (gross)	761,000	762,800			791,000
93	Taxes on Payroll	20,000	21,966			21,300
94	Medical Insurance Benefits	185,000	203,766			210,400
95	Calpers Retirement Benefits	169,200	157,733			171,000
96	Salaries & Wages contra account	(14,520)	(35,824)			(18,500)
97	Conference/Conventions/Training/Seminars	7,000	7,780			7,000
98	<b>TOTAL PERSONNEL EXPENSE:</b>	<b>1,144,180</b>	<b>1,133,107</b>			<b>1,200,700</b>
99						
100	<b>OFFICE EXPENSE</b>					
101	Office Supplies	18,000	20,811			18,000
102	Office Equipment/ Rental/Maintenance Agreements	25,000	26,944			40,000
103	Postage & Freight	13,000	14,387			15,000
104	Taxes on Property	2,500	2,394			2,400
105	Telephone/Answering Service	8,400	8,619			8,600
106	Dues & Subscriptions	3,600	947			3,600
107	Printing, Publications & Notices	1,000	2,894			3,000
108	Uniforms	5,400	5,421			5,400
109	OSHA Requirements/Emergency preparedness	4,000	2,839			4,000
110	<b>TOTAL OFFICE EXPENSE:</b>	<b>80,900</b>	<b>85,255</b>			<b>100,000</b>
111						
112	<b>UTILITIES EXPENSE</b>					
113	Pumping-Electricity	430,000	341,426			350,000
114	Office/Shop Utilities	19,000	23,412			25,000
115	Cellular Phone	7,500	8,750			7,500
116	<b>TOTAL UTILITIES EXPENSE:</b>	<b>456,500</b>	<b>373,589</b>			<b>382,500</b>
117						
118	<b>TOTAL EXPENSE BUDGET:</b>	<b>2,672,956</b>	<b>2,477,210</b>	<b>2,706,119</b>	<b>2,706,119</b>	<b>2,706,119</b>
119						
120	<b>NET CASH FLOW (O&amp;M)</b>	<b>1,129,758</b>			<b>1,454,388</b>	<b>1,106,925</b>

	C	BS	BW	BZ	CA	CB
1	<b>BWD</b>	5/27/2015	<b>CASH FLOW</b>			
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3	<b>FY 2016-2017</b>	<b>BUDGET</b>	<b>PROJECTED</b>	<b>FY 2017</b>	<b>BUDGET</b>	<b>BUDGET</b>
4		<b>2015-2016</b>	<b>2015-2016</b>		<b>2016-2017</b>	<b>2016-2017</b>
121	<b>NON O &amp; M EXPENSES</b>					
122	<b>Water</b>					
123	Twin Tanks, 1970's-inside coating	125,000	125,000			125,000
124	Pickup	30,000	28,784			35,000
125	Pipeline replacements	55,590	64,925			30,000
126	Pump and Cleaning Well ID4-4-Wells-ID1-12/ID4-4	70,000	35,000			150,000
127	Booster Station 1 Rehab	8,000	14,054			40,000
131	New 800 Reservoir					500,000
132	Transmission mains for new 800 Reservoir					100,000
133	Environmental review for water storage infrastructure					50,000
134	Engineering review for water storage infrastructure					75,000
135	<b>TOTAL WATER NON O&amp;M</b>					<b>1,105,000</b>
136	<b>Sewer</b>					
138	Portable engine driven trash pump	92,000	47,954			26,000
143	Transfer Switch					20,000
144	Return Pump					8,500
145	Fence at ponds WWTP					15,000
146	<b>TOTAL SEWER NON O&amp;M</b>					<b>69,500</b>
147	<b>NON-CIP</b>					
149	GWM -legal/Misc -prop 1 grant/USGS/Conservation	60,000	72,001			60,000
150	District portion of GSP/Interium General Manager support	80,000	97,991			204,000
161	<b>TOTAL GWM NON O&amp;M</b>					<b>264,000</b>
162	<b>OTHER</b>					
166	Air Photo Imagery					10,000
167	<b>TOTAL OTHER NON O&amp;M</b>					<b>10,000</b>
168	<b>TOTAL NON O&amp;M EXPENSES</b>	<b>1,202,678</b>	<b>485,710</b>		<b>1,448,500</b>	<b>1,448,500</b>
169						
170	<b>CASH RECAP</b>					
171	Cash beginning of period	2,611,448	2,852,387		2,366,677	2,366,677
172	Net Cash Flow (O&M)	1,129,758	0		1,464,388	1,106,925
173	Total Non O&M Expenses	(1,202,678)	(485,710)		(1,448,500)	(1,448,500)
174	<b>CASH AT END OF PERIOD</b>	<b>2,538,528</b>	<b>2,366,677</b>		<b>2,382,565</b>	<b>2,025,103</b>
175						
176	<b>RESERVES</b>					
177	Debt Reserves	(400,000)	(400,000)		(400,000)	(400,000)
178	Working Capital-Water (4 months)	(900,000)	(900,000)		(600,000)	(600,000)
180	Working Capital-Sewer (4 months)				(165,000)	(165,000)
181	Working Capital-CIP (4 months)				(430,000)	(430,000)
182	Contingency Reserves (10% O&M)	(270,000)	(270,000)		(270,000)	(270,000)
183	Rate Stabilization Reserves	(480,000)	(480,000)		(480,000)	(480,000)
184	Available for Emergency Reserves	488,528	316,677		37,565	(319,897)
185	<b>Target Emergency Reserves</b>	<b>2,000,000</b>	<b>2,000,000</b>		<b>2,000,000</b>	<b>2,000,000</b>
186	<b>Emergency Reserves Deficit</b>	<b>(1,511,472)</b>	<b>(1,683,323)</b>		<b>(1,962,435)</b>	<b>(2,319,897)</b>



	B	C	D	E	F
6	<b>BWD</b>				
7	<b>INCOME/EXPENSE</b>				
8	<b>CONDENSED BUDGET</b>				
9	<b>2016-2017</b>				
10					
11		<b>TOTAL</b>			
12		<b><u>BUDGET</u></b>	<b><u>WATER</u></b>	<b><u>ID4-WATER</u></b>	<b><u>SEWER</u></b>
13	<b><u>REVENUE</u></b>				
14					
15	Water Sales	2,932,680.37	1,173,072	1,759,608	
16	GWM Surcharge	179,642	71,857	107,785	
18	1% Property Assessment	65,000	26,000	39,000	
19	Water Availability Standby	240,286.01	96,114	144,172	
20	Sewer Revenue	752,850			752,850
23	Interest Income	49	17	25	8
28	<b>TOTAL PROPOSED INCOME FY 2017:</b>	<b><u>4,170,507</u></b>	<b><u>1,367,060</u></b>	<b><u>2,050,590</u></b>	<b><u>752,858</u></b>
30					
31	<b><u>EXPENSE</u></b>				
32					
33	Repairs & Maintenance	392,000	96,800	145,200	150,000
34	Professional Services	157,695	51,691	77,537	28,467
35	Insurance	76,800	25,174	37,762	13,864
36	Personnel Expense	812,300	266,266	399,398	146,636
37	Employee Benefits	388,400	127,315	190,972	70,114
38	Office expense	100,000	32,779	49,169	18,052
39	Utilities	382,500	125,380	188,071	69,049
40	Debt Expense-COP 2008	253,113	-	253,113	-
41	Viking Ranch Refinance	143,312	46,977	70,465	25,871
42	<b>TOTAL PROPOSED EXPENSE FY 2017:</b>	<b><u>2,706,119</u></b>	<b><u>772,382</u></b>	<b><u>1,411,685</u></b>	<b><u>522,052</u></b>
43					
44	<b>NET INCOME (EXPENSE) FY 2017:</b>	<b><u>1,464,388</u></b>	<b><u>594,678</u></b>	<b><u>638,904</u></b>	<b><u>230,806</u></b>
45					
46	Sewer Non-O&M Expense	69,500			\$ 69,500
47	Water Non-O&M Expense	1,105,000	\$ 442,000	\$ 663,000	
48	Other/Non-CIP Expense	274,000	\$ 89,815	\$ 134,723	\$ 49,462
49	<b>TOTAL NON O&amp;M EXPENSE FY 2017:</b>	<b><u>1,448,500</u></b>	<b><u>531,815</u></b>	<b><u>797,723</u></b>	<b><u>118,962</u></b>
50					
51	<b>TOTAL NET CASH FLOW FY 2017:</b>	<b><u>15,888</u></b>	<b><u>62,863</u></b>	<b><u>(158,818)</u></b>	<b><u>111,844</u></b>



A	D	E	F	G	H	I	J	K	L	M
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
<b>1 WELLS</b>										
2 ID1-8, 125 Hp			\$ 40,000		\$ 15,000				\$ 50,000	
3 ID1-10, 150 Hp				\$ 20,000						
4 ID1-12, 200 Hp	\$ 75,000				\$ 20,000		\$ -			\$ 80,000
5 ID1-16, 300 Hp		\$ 20,000			\$ 74,400		\$ 23,000			\$ 40,000
6 Wilcox, Diesel drive					\$ 20,000				50000	
7 ID4-4, 150 Hp	\$ 75,000					\$ 20,000		\$ -		\$ 20,000
8 ID4-11, 200 Hp			\$ 20,000		\$ 80,000			20,000		
9 ID4-18		\$ 12,000				\$ 40,000	\$ -			\$ 20,000
10 ID5-5, 200 Hp		\$ 80,000			\$ 20,000		\$ -		\$ 80,000	
11 Air Quality Compliance		\$ 50,000			\$ 50,000		50,000			\$ 50,000
12 Emergency Generator Connections		15,000	15,000							
<b>13 TANKS</b>										
14 Rams Hill #1, 1980 steel, needs inside coating, 1.25 MG							200,000			
15 Rams Hill #2, 1980 galv. 0.44 MG, repairs - engineering study			\$ 125,000							
16 Indianhead, 1970's 1 - 0.22MG, inside coating		\$ 125,000							\$ -	
17 Twin Tanks, 1970's 2 - 0.22 MG, inside coating (two tanks, one per year)	\$ 125,000			\$ 125,000						
18 Country Club, 1999 1.0 MG						\$ 150,000				
19										
<b>20 BOOSTER/PRESSURE REDUCING STATIONS</b>										
21 ID1, Booster Sta. 1, #1 & 2 30 Hp, #3 50hp	\$ 40,000				\$ 20,000				\$ 20,000	
22 ID4, Booster Sta. 3, #7, 25 Hp			\$ 10,000							\$ 15,000
23 ID4, Booster Sta. 4, 5hp					5,000				\$ 5,000	
<b>24 WASTEWATER PLANT</b>										
25 Motor and Gear Reducers for Brushes		\$ 17,920				\$ 20,070				\$ 21,000
26 Wastewater Return Pump	\$ 8,500					\$ 9,000				\$ 10,000
28 Portable engine driven pump	\$ 26,000									
29 Fence at ponds & WWTP	\$ 15,000									
30 Transfer Switch	\$ 20,000									
31 Clarifier Rehab		\$ 20,000								
<b>32 EQUIPMENT</b>										
33 Tractor repair/roadwork blade			\$ 165,000	\$ 25,000	\$ -			\$ 190,000		
34 Backhoe										
35 Pickups	\$ 35,000			\$ 37,000		\$ 40,000			\$ 45,000	
36 Big Truck		\$ 50,000								
37 Air Photo Imagery	\$ 10,000	\$ 10,000								
38										
<b>39 TOTAL SHORT LIVED ASSETS REPLACEMENT PROGRAM</b>	\$ 429,500	\$ 399,920	\$ 365,000	\$ 217,000	\$ 304,400	\$ 279,070	\$ 273,000	\$ 210,000	\$ 250,000	\$ 256,000

# MEMORANDUM

**DATE:** June 9, 2016

**TO:** Borrego Water District Board of Directors

**FROM:** Jerry Rolwing, General Manager and David Dale, Dynamic Consulting Engineers, Inc.

**Re:** Borrego Water District, 5-10 Year Capital Improvement Program (CIP) Justification

This memorandum is to provide detailed information and justification for the proposed CIP for the next ten years. Through a regular maintenance schedule, the infrastructure of the Borrego Water District is in overall good condition. The District is proactive in planning for replacement of known short lived assets and necessary capital improvement projects to increase the useful life and reliability of the system, and reduce the District's risk and overall maintenance costs. This is done through the dedication and experience of the system operators and staff. The District's consulting engineer participated in the preparation of this CIP and Short Lived Assets replacement program.

A CIP will provide many benefits to the District. The CIP will:

- Allow for a systematic evaluation of all potential projects at the same time.
- Provide the ability to stabilize debt and consolidate projects to reduce borrowing costs.
- Serve as a public relations and economic development tool.
- Preserve the District's infrastructure while ensuring the efficient use of public funds.
- Be a tool used for applications for Federal and State grant and loan programs.

Projects included in the CIP were prioritized based on many years of experience and firsthand knowledge of the system and its deficiencies. The anticipated costs for each project were developed based on trends in the market and historical costs to the District. Normal operating expenses (such as office equipment and minor repairs) are not included in the short lived assets program. The CIP includes projects with a value of \$5,000.00 or more.

Justification for the expected expenses in the CIP and Short Lived Assets are as follows:

## **Short Lived Assets**

### **Wells**

This data was compiled from historical repairs to the pumps over a 10 year period. The trends for repairs and replacements of motors and well casing have also been reviewed over the period. The wells are the essential component of the water production operation. When a well fails, the entire distribution system is disrupted. The goal is to properly maintain the equipment on a proactive basis and work for timely, cost effective repairs before failure. Based on historical trends, the numbers provided in the Short Lived Assets are realistic. Staff strives to keep the equipment adequately maintained; however some unexpected failures will undoubtedly arise.

## **Tanks**

The California Department of Health Services requires the District to physically inspect the inside of the domestic water reservoirs every three years. This service is performed by a consultant that utilizes divers and provides a written report as well as a video. There is one steel reservoir that is equipped with cathodic protection that was resurfaced last year. One of our five bolted steel (galvanized) tanks will need inside coating in this year. We have applied for Proposition 1 grant funding to recoat the three galvanized tanks in Improvement District #4, but in case the grant request is unsuccessful, we included the coating for one tank in this year's budget. As internal inspections warrant, tanks will be coated in future years. The bladder in the 800 Reservoir has failed and steps are presently underway to construct a new tank in its place. This has also been added to the budget. The remaining reservoirs were constructed with galvanized metal which historically has proven to be compatible with the constituents in our local groundwater. We will be investigating methods of rehabilitation for these tanks over the next year.

## **Booster Stations**

This data was compiled from historical repairs and anticipated replacement costs.

## **Wastewater Plant**

The costs associated with the wastewater operations are based on historical records and anticipated repairs by the wastewater treatment plant operator and District engineering consultants. In order to maintain infrastructure integrity, a ten year program is included to re-build the concrete facilities that are showing sign of deterioration from the harsh desert climate over the past 25 years. We have also included a project to video the sewer collection mains in years three and five. Proposition 1 grant applications have also been submitted to rebuild the deteriorating concrete at the plant, video inspect the sewer mains at Club Circle and perform a feasibility for plant conversion to from secondary to tertiary treatment.

## **Equipment**

These costs are based on normal wear and tear on District vehicles and equipment. Other considerations include State engine emissions requirements as they become more stringent.

## **Capital Improvement Program (CIP)**

### **Capital Improvement Projects include Wells, Booster Stations, Reservoirs and Associated Transmission Mains**

These are expected major capital improvement items that are anticipated to be required in the next ten year period. These costs do not account for unanticipated population growth or decline.

### **Wastewater Plant**

These costs are associated with the upgrading of existing infrastructure while following the provisions of the Regional Water Quality Control Board Order.

### **Pressure Reducing Stations**

These are estimated expenditures based on past and future studies regarding the distribution system.

### **Pipelines**

The distribution system requires continual upgrades to avoid pipeline breaks and associated damages from negligence. The list of future projects was compiled with staff and engineering assistance and represents the anticipated pipeline improvements to alleviate any future problems with high pressures currently experienced within the distribution system.

### **Other Infrastructure**

Over time, fire hydrants fail and require replacement. Some of the older hydrants in the system are constructed with inferior material as compared to today's standards and a regular replacement program is needed.

### **Groundwater Management**

In September 2014, the State enacted the Sustainable Groundwater Management Act (SGMA). This requires all groundwater basins that are deemed "medium or high" level of overdraft to create a Groundwater Sustainability Plan (GSP) by January 2020. The GSP must bring the groundwater basin into balance (natural recharge equals extractions) in 20 years from Plan adoption. The Borrego Water District is working on the planning process and developing costs associated with creating the GSP. It is the intention of the District to spread these costs over all groundwater pumpers in the valley, with ratepayers responsible for their share.

6/09/16

Jerry Rolwing  
General Manager  
Borrego Water District  
806 Palm Canyon Drive  
Borrego Springs, CA 92004

Mr. Rolwing:

I have reviewed the proposed Capital Improvement Program for the next ten years and concur that the projects identified in the schedule are the most pressing physical infrastructure needs of the District at this time. The estimated costs (in 2016 dollars) of these improvements are reasonable for planning purposes.

If you have any questions please contact me.

Regards,

A handwritten signature in cursive script that reads "David Dale".

David Dale, PE, PLS  
Contract Engineer

**BORREGO WATER DISTRICT**  
**POLICY STATEMENT**

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**SUBJECT: CASH RESERVES POLICY**

**NO: 2011-05-01**

**ADOPTED: 2011-05-25**

**AMENDED: 2015-05-27**

**AMENDED: 2016-06-09**

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**I. BACKGROUND AND INTRODUCTION**

Reserves are needed because of risk. Water and sewer operations are inherently risky, given the potential liability associated with repairing and replacing infrastructure necessary for maintaining 24x7 operations for supplying potable water and sewer and wastewater treatment services to the homes and businesses of Borrego. In addition, water operations have risk associated with the volatility of revenue due to weather conditions. Reserves also assist in reducing rate shocks. Without them a water utility is exposed to rate instability. Rate instability increases the cost of borrowing, which drives up rates. In addition, reserves help the District improve its credit rating, which translates into lower interest rates on debt and thus lower rates for the District's customers. Also, sometimes bond or loan covenants require a debt reserve or recommend a rate stabilization reserve.

Many utilities operate in a state of revenue deficiency, which means they either rely on existing reserves, skimp on funding reserves, or defer economically prudent repair and replacement of capital infrastructure to the future where higher costs will be borne by ratepayers to repair or replace infrastructure that has failed catastrophically. Becoming revenue sufficient means that a utility can count on receiving adequate revenues to fully fund utility operations, including debt service obligations, and some portion of capital improvements from rate revenues and reserves. Reserve accounts are a vital part of water and sewer and wastewater treatment system's financial health.

This Board believes that operating with revenue sufficiency is required, not only to remain creditworthy for future capital borrowing, but also to replace depleted reserves necessary to operate most economically. For these reasons, the District will maintain reserve funds so as to provide working capital for operations; funds required by law, ordinance and bond covenants; and necessary cash for the scheduled and unscheduled repair and replacement of capital infrastructure; as well as funds set aside for groundwater management purposes.

Reserves are also necessary for the District to stabilize rates due to normal revenue and cost uncertainties, and to provide a prudent amount of insurance against economic downturns and emergencies. The efficient and discrete management of these cash reserves, when combined with their appropriate replacement as they are drawn down from time-to-time add additional assurance that the current levels of service reliability and quality that the District's ratepayers have grown to expect will continue into the future.

This reserve policy is based upon prudent financial management practices and those amounts required by legal, legislative, and contractual obligations that are critical to the financial health of the District. This policy defines required fund types for segregation purposes and their funding levels that are based upon this District's unique



operating, capital investment and financial plans. Both restricted reserves and Board discretionary reserves for the water enterprise and the sewer and wastewater enterprise will be funded by rates specific to those enterprises so as to meet California Proposition 218 requirements. That is, reserves specific to the needs of the District's water enterprise will be accumulated from water rates. Reserves specific to the needs of the District's sewer and wastewater enterprise will be funded from sewer and wastewater treatment rates.

**II. RESTRICTED RESERVES.** Restricted Reserves are established and utilized for narrowly defined purposes and are protected by law or covenant. The District's Restricted Reserves for its water and sewer and wastewater treatment enterprises are the following:

**Debt Reserves.** Reserves equal to the annual principle and interest (P&I) for debt obligations of the District shall be formally transferred and restricted in accordance with all legal requirements.

**System Growth Reserves.** These reserves generated from development charges for new meters as specified by the District's New Development policy in effect are used to offset capital projects or debt service related to new development in the District so that new development pays for itself rather than requiring a subsidy from existing ratepayers.

### **III. BOARD DISCRETIONARY RESERVES**

**Operating or Working Capital Reserves.** The purpose of an operating reserve is to have liquid cash on hand for the continued day-to-day operations of the utility. The Operating Reserve may be used for cash flow purposes to fund necessary expenses without the need to wait for billed revenue to come in as well as any unexpected increases in operating expenses. The amount of the Operating Reserve is commonly pegged to a certain percentage of the utility's total operating expenses. The set percentage is usually dictated by the utility's bill frequency; if customers are billed on a monthly basis, then revenue continuously comes in and the need to have a significant amount of funds within the Operating Reserve is not necessary. Based on industry standards, The Operating Reserve, in the case of monthly billing, should equal around 90 days of expenses (3 months). As the bill frequency is less frequent, the Operating Minimum Reserve should be increased to account for the time delay of receiving cash on hand. The operating or working capital reserve shall be a minimum reserve of no less than 90 days of Operating and Maintenance annual expenses (O&M), with an ideal operating reserve target of 120-days of annual O&M expenses.

**Rate Stabilization Reserves.** These reserves are used to stabilize water and sewer and wastewater treatment rates to the extent possible. This reserve, when fully funded, shall be maintained at level of thirty (30%) percent of the revenue generated from the commodity rate for water services and thirty (30%) percent of the total revenues from sewer services. This reserve is to defray any temporary unforeseen and extraordinary increases in the operating costs of the District.

**Contingency Reserves.** The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts or other economic events that may affect the District's enterprise operations, which could not

have been reasonably anticipated at the time the budget was prepared. The target level for this reserve is a minimum of one percent (1%) and a maximum of ten percent (10%) of the District's total enterprise-wide operating expenses. Generally, the level will be increased as the level of economic uncertainty increases.

**Capital Repair and Replacement Reserve (Capital Reserve).** A Capital Repair and Replacement Reserve is used primarily to meet and ensure the timely construction of necessary capital improvements without any delays due to cash flow concerns. Capital expenses can fluctuate quite a bit from year-to-year and the Capital Reserve may be leveraged to smooth out significant changes in expenses and; thereby, avoiding any undue rate shock to District customers. It may also serve as collateral and reassurance when awarding a construction contract. A sound target for the Capital Reserve is to have an average years' worth of capital expenses based on the District's adopted Capital Improvement Plan (CIP). At a minimum, the Capital Reserve should be funded to at least an amount equivalent to the total annual depreciation value of the system and these funds can be used as a reasonable reinvestment amount into the system. The Capital Reserve target is a reserve equal to the inflated value of a rolling average of the subsequent 5 years of the District's Capital Improvements Plan.

**Emergency Reserves.** The purpose of the emergency reserve is to protect the District and its customers against the impacts from unanticipated emergencies that would severely impact the District's ability to deliver the water and/or sewer and wastewater treatment services to its customers. This reserve provides funding for emergency repairs or failure of essential equipment that must be immediately replaced and unanticipated by the Capital Improvements Plan (CIP). The emergency reserve target is \$2,000,000 that should be sufficient to finance the required cash flow until such time that adequate emergency financing can be secured from conventional outside resources.

**IV. OTHER RESERVE FUNDS.** The District's Board may establish other cash reserve funds for specific needs that are over and above the reserves noted above as may be necessary from time to time.



**BORREGO WATER DISTRICT  
PROPOSED RATES FOR  
FISCAL YEARS 2017-2021  
Adopted June 9, 2016**

**Sewer Rates**

The District provides sewer service to areas 1, 2 and 5. Changes are being proposed for all Areas. The District's monthly sewer charges are based on one equivalent dwelling unit (EDU) usage of 250 gallons per day, for a typical single family residence. Commercial projected EDU requirements are determined on a case-by-case basis. Sewer customers in area 2 (TCS) are charged a fixed monthly holder fee, and a monthly user fee based on number of EDU's

Sewer service charges are proposed to change as shown in the following table:

	Current Rates FY 2016	FY 2017 Adopted	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected
Sewer Area 1	\$33.56	\$38.78	\$40.33	\$41.94	\$43.62	\$45.37
Sewer Area 5	\$62.62	\$45.10	\$46.90	\$48.78	\$50.73	\$52.76
TCS User	\$29.42	\$45.10	\$46.90	\$48.78	\$50.73	\$52.76
TCS Holder	\$19.42	\$24.76	\$25.75	\$26.78	\$27.85	\$28.97
BSR	\$62.62	\$24.76	\$25.75	\$26.78	\$27.85	\$28.97
BSR Usage	\$1.30	\$1.82	\$1.89	\$1.97	\$2.05	\$2.13

**Water Rates**

The District's water rates have two components: 1) a **Fixed Meter Charge** based on the customer's meter size, to recover a portion of the District's fixed costs of operating, maintaining and delivering water, and 2) a **Commodity Charge**, determined by the amount of water used. It is proposed that the fixed charges, applicable to all customers account for 33% of the District's ongoing expenses, and 67% of such expenses should be funded on a consumption basis. It is further proposed that both charges increase at the rate of 5% per year for five years, in order to meet future increases in expenses, provide reserves, and provide sufficient reserves to meet any future debt obligations, and to allow for additional annual increases to pass through inflation. The proposed rates would consider two tiers, calculated to address the costs incurred by the District to deliver water, the difference based on basic domestic (i.e., indoor) water usage, and outdoor irrigation

Fixed water meter charges are proposed to change as shown in the following table:

Meter size	Current Rates FY 2016	FY 2017 Adopted	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected
¾ "	\$42.04	\$34.89	\$36.99	\$39.21	\$41.57	\$44.07
1"	\$61.45	\$45.27	\$47.99	\$50.87	\$53.93	\$57.17
1 ½"	\$103.62	\$71.20	\$75.48	\$80.01	\$84.82	\$89.91
2"	\$156.85	\$102.32	\$108.46	\$114.97	\$121.87	\$129.19
3"	\$284.86	\$185.31	\$196.43	\$208.22	\$220.72	\$233.97
4"	\$454.12	\$278.68	\$295.41	\$313.14	\$331.93	\$351.85
6"	\$906.10	\$538.03	4570.32	\$604.54	4640.82	\$679.27

Commodity Rates are proposed to change as shown in the following table:

Residential	Current Rates FY 2016	FY 2017 Adopted	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected
Tier 1 1-7	\$2.42	\$3.16	\$3.35	\$3.56	\$3.78	\$4.01
Tier 2 >7		\$3.48	\$3.69	\$3.92	\$4.16	\$4.41

Non-Residential	Current Rates	FY 2017 Adopted	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected
Tier1	\$2.42	\$3.35	\$3.55	\$3.77	\$4.00	\$4.24

### Other Rates and Fees

Any rates or fees associated with water or sewer service that are not addressed in the notice shall remain in full force and effect as previously adopted by the Board of Directors.

### Pass Through Costs

Pursuant to AB 3030, the District Board will also authorize the pass-through of future rate and charge increases by San Diego Gas & Electric for electricity rates associated with storing, treating, pumping, and delivering water. This authorization will be in effect for five years, until June 30, 2021. The Board will hold a public hearing to review the proposed increases prior to enacting any such changes.