

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

MEMORANDUM

DATE: FEBRUARY 27, 2018

TO: BOARD OF DIRECTORS
Lake Arrowhead Community Services District

FROM:



JESSICA BROWN, Finance Manager



CATHERINE CERRI, General Manager

SUBJECT: FISCAL YEAR 2018-19 AND 2019-20 BUDGET PLANNING

A. RECOMMENDATION

This is an informational item only.

B. REASON FOR RECOMMENDATION

This is an informational item only.

C. BACKGROUND INFORMATION

In accordance with California Government Code Section 61110(f), the District's Board of Directors adopts a biennial budget every other year. District staff began the 2018-19 and 2019-20 budget cycle in January, 2018, and are in the process of preparing the operating expense budgets and a proposed budget calendar is attached.

Staff were provided inflationary assumptions for expenditure targets as a guideline in the preparation of their budgets. These assumptions are based upon the District's historical and projected increases as indicated in the District's 2015-16 rate study, and are in line with the Bureau of Labor Statistics Consumer Price Index for December 2017. Preliminary budget figures for 2018-19 and 2019-20 are based upon these assumptions (as listed below) and the projected operating results of 2017-18 which are attached.

<i>Assumptions</i>	<i>2018-19</i>	<i>2019-20</i>
Revenue Growth (Units)	0.1%	0.1%
Interest Income	0.5%	0.8%
Salary	0.3%	3.0%
Benefits*	18.7%	8.3%
Medical Benefits*	6.9%	12.1%
Materials & Supplies	3.0%	3.0%
Equipment	2.5%	2.5%
Miscellaneous	1.5%	1.5%
Utilities	4.0%	4.0%
Insurance	3.5%	3.5%

*Percentages as shown are increases as compared to the 2015-16 Rate Study based upon projected increases in pension and health insurance expense.

It is projected that the impact of the inflationary assumptions will result in the following:

Operating revenue – An increase of 8.5% for 2018-19 as compared to the 2016-17 budget and an increase of .5% for 2019-20.

- Water – operating revenue primarily includes charges for services and supplemental water fee. Charges for services or rate revenue was increased by 1.4% for each year based on 2017-18 projected revenue and anticipated rate increases which resulted in a 7.8% increase as compared to the 2017-18 budget. No increase was projected for Supplement Water Fee revenue.
- Wastewater – operating revenue primarily includes charges for services and property tax revenue. Charges for services or rate revenue was increased by 1.75% each year based on 2017-18 projected revenue and anticipated rate increases which resulted in a 9.2% increase as compared to the 2017-18 budget. A 2% increase was projected for property tax revenue each year based upon projected assessed property valuations within the District.
- Deer Lodge Park – operating revenue primarily includes charges for services. Charges for services or rate revenue was increased by 5.0% each year based on 2017-18 projected revenue and anticipated rate increases which resulted in a 3.4% increase as compared to the 2017-18 budget.
- Rimforest – operating revenue primarily includes charges for services. Charges for services or rate revenue was projected to be flat based on 2017-18 projected revenue which resulted in a 5.2% increase as compared to the 2017-18 budget

Personnel expenses – include salaries and benefits and were increased by 5.5% for 2018-19 and 5.4% for 2019-20. Projected increases include a 3% increase in salaries each year for merit and cost of living increases, a 18.7% increase in benefits in 2018-19 and 8.3% in 2019-20 primarily due to increases in pension expense, and a 6.9% increase in medical benefits in 2018-19 and 12.1% in 2019-20.

Operating expenses – include materials and supplies, equipment utilities, insurance and other expenses. Projected operating expenses were increased by 2.6% for 2018-19 and 2.5% for 2019-20.

Based on these assumptions, a preliminary estimate of their financial impact is attached. Upon the completion of the operating budget, a cash flow forecast will be generated to determine the available funds for the capital budget.

D. FISCAL IMPACT

This is an informational item only.

E. ATTACHMENTS

Budget Calendar
Projected 2017-18 Operating Results
Preliminary Budget Assumptions

Fiscal Years 2018-19 and 2019-20 Budget Calendar

January 31	Department Managers and Supervisors Operating Expense Planning Meeting Distribute Operating Expense Budgeting Tool
February 6	Current FYE Cash Flow Projection completed by Finance
February 14	Department Managers Meeting Discuss operating expenses and personnel needs
February 16	Expense Worksheets due to Finance
February 27	Discuss Budget Goals at BOD Meeting
March 2	Finance to complete revenue and personnel budget
March 9	Finance to complete cash flow projections to determine availability of funds for capital projects
March 14	Department Managers Meeting Discuss income and expense statements
March 16	Capital worksheets completed and turned in to Finance
March 16	All revisions due to Finance
March 30	Draft Budget Complete
April 24	Board Budget Workshop
May 8	Public Notices mailed 45 days prior to Public Hearing (if necessary) by May 8, 2018
May 22	Revised Draft Budget to the Board (if necessary)
June 26	Public Hearing (if necessary) & Final Budget presented to the Board

Projected 2017-18 Operating Results

2017-18 Water Operating Fund Projection (100)

	Budget	Projection	Variance	Var %
Revenue	5,986,892	6,486,171	499,279	8.3%
Personnel Expense	(2,810,228)	(2,754,888)	55,339	-2.0%
Operating Expense	(1,801,230)	(1,555,067)	246,163	-13.7%
Non-Operating Exp	<u>(228,670)</u>	<u>(302,987)</u>	<u>(74,317)</u>	<u>32.5%</u>
Cash Net Income	1,146,764	1,873,230	726,465	63.3%

2017-18 Wastewater Operating Fund Projection (200)

	Budget	Projection	Variance	Var %
Revenue	10,110,220	10,582,481	472,261	4.7%
Personnel Expense	(3,589,359)	(3,179,248)	410,111	-11.4%
Operating Expense	(2,549,556)	(2,845,203)	(295,647)	11.6%
Non-Operating Exp	<u>(719,197)</u>	<u>(514,239)</u>	<u>204,958</u>	<u>-28.5%</u>
Cash Net Income	3,252,108	4,043,792	319,422	9.8%

2017-18 Deer Lodge Park Operating Fund Projection (300)

	Budget	Projection	Variance	Var %
Revenue	145,698	149,659	3,961	2.7%
Personnel Expense	(103,066)	(83,629)	19,437	-18.9%
Operating Expense	(56,196)	(33,847)	22,349	-39.8%
Water Purchase	<u>(23,000)</u>	<u>(34,883)</u>	<u>(11,883)</u>	<u>51.7%</u>
Cash Net Income	(36,564)	(2,700)	33,864	-92.6%

2017-18 Rimforest Operating Fund Projection (400)

	Budget	Projection	Variance	Var %
Revenue	259,991	273,045	13,054	5.0%
Personnel Expense	(85,154)	(71,163)	13,991	-16.4%
Operating Expense	(31,095)	(28,230)	2,865	-9.2%
Water Purchase	<u>(55,380)</u>	<u>(46,788)</u>	<u>8,592</u>	<u>-15.5%</u>
Cash Net Income	88,362	126,864	16,856	19.1%

Preliminary Budget Assumptions

Water

Line Item	2017-18 Budget	2018-19 Preliminary Assumption	2018-19 Variance to PY	2018-19 Var %	2019-20 Preliminary Assumption	2019-20 Variance to PY	2019-20 Var %
Revenue & SWF	7,880,797	8,493,729	612,932	7.8%	8,582,707	88,978	1.0%
Salary	1,839,140	1,870,377	31,237	1.7%	2,084,051	213,674	10.3%
Benefits	685,214	815,905	130,690	19.1%	955,624	139,719	14.6%
Medical Benefits	442,003	451,483	9,480	2.1%	547,328	95,846	17.5%
Materials & Supplies	217,106	222,534	5,428	2.5%	228,097	5,563	2.4%
Equipment	335,966	346,045	10,079	3.0%	356,426	10,381	2.9%
Miscellaneous	658,656	668,536	9,880	1.5%	678,564	10,028	1.5%
Utilities	377,526	392,627	15,101	4.0%	408,332	15,705	3.8%
Insurance	52,005	53,825	1,820	3.5%	55,709	1,884	3.4%
Operating Expense	4,607,616	4,821,331	213,716	4.6%	5,314,132	492,801	9.3%
Operating Income	3,273,181	3,672,397	399,216	12.2%	3,268,575	(403,823)	-12.4%

Wastewater

Line Item	2017-18 Budget	2018-19 Preliminary Assumption	2018-19 Variance to PY	2018-19 Var %	2019-20 Preliminary Assumption	2019-20 Variance to PY	2019-20 Var %
Revenue	9,983,220	10,900,108	916,888	9.2%	10,900,108	-	0.0%
Salary	2,459,677	2,452,082	(7,595)	-0.3%	2,386,027	(66,055)	-2.8%
Benefits	900,448	1,069,659	169,211	18.8%	1,094,093	24,434	2.2%
Medical Benefits	540,243	591,898	51,655	9.6%	626,635	34,737	5.5%
Materials & Supplies	420,939	431,462	10,523	2.5%	442,249	10,787	2.4%
Equipment	481,386	495,828	14,442	3.0%	510,702	14,875	2.9%
Miscellaneous	1,051,239	1,067,008	15,769	1.5%	1,083,013	16,005	1.5%
Utilities	656,794	683,066	26,272	4.0%	710,388	27,323	3.8%
Insurance	117,756	121,877	4,121	3.5%	126,143	4,266	3.4%
Operating Expense	6,628,482	6,912,880	284,398	4.3%	6,979,252	66,372	1.0%
Operating Income	3,354,738	3,987,228	632,490	18.9%	3,920,856	(66,372)	-1.7%

Preliminary Budget Assumptions

Deer Lodge Park

Line Item	2017-18 Budget	2018-19 Preliminary Assumption	2018-19 Variance to PY	2018-19 Var %	2019-20 Preliminary Assumption	2019-20 Variance to PY	2019-20 Var %
Revenue	145,338	150,311	4,973	3.4%	157,075	6,764	4.3%
Salary	64,681	59,440	(5,241)	-8.1%	61,269	1,829	3.0%
Benefits	24,391	25,929	1,538	6.3%	28,094	2,165	7.7%
Medical Benefits	13,994	14,348	354	2.5%	16,091	1,743	10.8%
Materials & Supplies	6,471	6,633	162	2.5%	6,799	166	2.4%
Equipment	8,290	8,539	249	3.0%	8,795	256	2.9%
Miscellaneous	20,986	21,301	315	1.5%	21,620	320	1.5%
Utilities	17,159	17,845	686	4.0%	18,559	714	3.8%
Insurance	2,290	2,370	80	3.5%	2,453	83	3.4%
Operating Expense	158,262	156,405	(1,857)	-1.2%	163,680	7,275	4.4%
Operating Income	(12,924)	(6,095)	6,829	-52.8%	(6,605)	(511)	7.7%

Rimforest

Line Item	2017-18 Budget	2018-19 Preliminary Assumption	2018-19 Variance to PY	2018-19 Var %	2019-20 Preliminary Assumption	2019-20 Variance to PY	2019-20 Var %
Revenue	259,511	273,045	13,534	5.2%	275,775	2,730	1.0%
Salary	59,604	54,211	(5,393)	-9.0%	37,846	(16,365)	-43.2%
Benefits	20,160	23,648	3,488	17.3%	17,354	(6,294)	-36.3%
Medical Benefits	5,390	13,086	7,696	142.8%	9,939	(3,146)	-31.7%
Materials & Supplies	4,846	4,967	121	2.5%	5,091	124	2.4%
Equipment	4,797	4,941	144	3.0%	5,089	148	2.9%
Miscellaneous	14,896	15,119	223	1.5%	15,346	227	1.5%
Utilities	3,266	3,397	131	4.0%	3,533	136	3.8%
Insurance	2,290	2,370	80	3.5%	2,453	83	3.4%
Operating Expense	115,249	121,739	6,490	5.6%	96,652	(25,087)	-26.0%
Operating Income	144,262	151,306	7,044	4.9%	179,123	27,818	15.5%

Total District

Line Item	2017-18 Budget	2018-19 Preliminary Assumption	2018-19 Variance to PY	2018-19 Var %	2019-20 Preliminary Assumption	2019-20 Variance to PY	2019-20 Var %
Revenue	18,268,866	19,817,192	1,548,326	8.5%	19,915,664	98,473	0.5%
Personnel Expense	7,054,945	7,442,066	387,121	5.5%	7,864,353	422,287	5.4%
Operating Expense	4,454,664	4,570,290	115,626	2.6%	4,689,362	119,073	2.5%
Operating Income	6,759,257	7,804,836	1,045,579	15.5%	7,361,949	(442,887)	-6.0%