

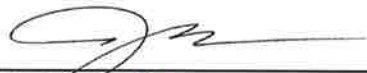
**LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT**


**MEMORANDUM**

**DATE:** FEBRUARY 27, 2017

**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>
<b>Revenue Growth (Units)</b>	0.1%	0.1%
<b>Interest Income</b>	0.5%	0.8%
<b>Salary</b>	0.3%	3.0%
<b>Benefits*</b>	18.7%	8.3%
<b>Medical Benefits*</b>	6.9%	12.1%
<b>Materials &amp; Supplies</b>	3.0%	3.0%
<b>Equipment</b>	2.5%	2.5%
<b>Miscellaneous</b>	1.5%	1.5%
<b>Utilities</b>	4.0%	4.0%
<b>Insurance</b>	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

## 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%