



**LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT**

**MEMORANDUM**

**DATE:** March 24, 2020

**TO:** BOARD OF DIRECTORS  
Lake Arrowhead Community Services District

**FROM:**

  
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JOHN O'BRIEN, Finance Manager  
  
\_\_\_\_\_  
CATHERINE CERRI, General Manager

**SUBJECT:** FISCAL YEAR 2020-21 AND 2021-22 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. The biennial budget provides a blueprint that prioritizes the District's goals, authorizes the expenditure of resources to meet those goals and demonstrates stewardship of public funds over the long term. District staff began the 2020-21 and 2021-22 budget cycle in February of this year and are in the process of preparing the operating expense budgets and a proposed budget calendar is attached.

The District considers a budget as balanced if there are sufficient net revenues to cover the cost of operations and debt service. The District will always adopt a budget that is balanced. The District considers a budget as fully funded if the budget is balanced and there is sufficient cash from operations to contribute the amounts necessary to fund the Operating Funds, the Capital Improvement Funds and the Rate Stabilization Funds as outlined in the District's Cash Reserve Policy. The District will strive towards a fully funded budget. If there is a revenue gap, the budget will indicate how and when this gap will be eliminated.

This planning update also serves as an opportunity for the Board to request items or goals to be included in the budgeting process.

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. Preliminary budget figures for 2020-21 and 2021-22 are based upon these assumptions, as listed below.

<b>Assumptions</b>	<b>2020-21</b>	<b>2021-22</b>
Revenue Growth (Rates-Water)	5.0%	5.0%
Revenue Growth (Rates-Wastewater)	3.0%	3.0%
Interest Income*	8.5%	-7.0%
Salary	3.0%	3.0%
Workers Compensation Insurance*	15.0%	15.0%
Health Benefits*	1.5%	10.0%
Pension Contributions*	10.0%	8.0%
Material & Supplies	2.5%	2.5%
Equipment	3.0%	3.0%
Miscellaneous	1.5%	1.5%
Utilities	4.0%	4.0%
Other Insurance	3.5%	3.5%

\*Percentages shown are based on projected increases in pension, worker's compensation insurance and health insurance expense outside of the Rate Study.

Budgeting for the following two years must take into consideration the operating results of the current fiscal year to determine if there will be a shortfall that must be incorporated in subsequent years. Based on our projections, the District will not have to reduce its future operating budgets to compensate for current year items that have exceeded budget. Projected operating results for the 2019-20 year are attached.

Operating revenue – Water operating revenue primarily includes charges for water services within the District's boundaries. No increase in overall usage is expected in the coming two budget years. However, assumed annual rate increases expect to provide the District with a 2.75% overall revenue increase year over year compared to the last budgeted year of 2019-20. Wastewater operating revenue primarily consists of charges for sewer service and property tax revenue. Wastewater fee revenue is expected to see an increase of approximately 2.5% based on assumed rate increases and projected assessed property valuations within the District compared to the previously budgeted year of 2019-20.

Operating expenses – Operation expenses include personnel costs, benefits, pensions, materials, supplies, equipment utilities, insurance and other expenses related to the day to day operations of the District. Projected operating expenses were increased by 2.6% for 2020-21 and 2.5% for 2021-22.

Economic Climate – The United States has enjoyed the longest economic expansion in its history, with the current cycle beginning in June of 2009. As of this writing, the extreme uncertainty surrounding the domestic and global economic impact of the COVID-19 virus has led many economists to predict that the current economic expansion has come to an end. While an economic downturn seems likely, the District can reasonably expect its revenue figures to find support in the fact that the District provides services with a fairly inelastic demand. While the District did experience a decrease in revenue during the downturn of the Great Recession, the District was not as severely impacted as other organizations that are more dependent on direct consumer spending. In an attempt to stimulate the economy during these volatile times, the Federal Reserve has continued to lower interest rates. Sustained lower interest rates will definitely have a negative impact on the District’s ability to generate interest income over the next two budgeted years.

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 2019-20 Operating Results

## **Fiscal Years 2020-21 and 2021-22 Budget Calendar**

February 4	Department Managers and Supervisors Operating Expense Planning Meeting Distribute Operating Expense Budgeting Tool
February 11	Current FYE Cash Flow Projection completed by Finance
February 13	Department Managers Meeting Discuss operating expenses and personnel needs
February 18	Expense Worksheets due to Finance
March 4	Finance to complete revenue and personnel budget
March 24	Discuss Budget Goals at BOD Meeting
March 11	Finance to complete cash flow projections to determine availability of funds for capital projects
March 20	Department Managers Meeting Discuss income and expense statements
March 23	Capital worksheets completed and turned in to Finance
March 23	All revisions due to Finance
April 3	Draft Budget Complete
April 28	Board Budget Workshop
May 20	Draft Budget to the Board
June 9	Revised Draft Budget to the Board (if necessary)
June 23	Public Hearing & Final Budget presented to the Board

## Projected 2019-20 Operating Results

### 2019-20 Water Operating Fund Projection (100)

	Budget	Projection	Variance	Var %
Revenue	6,786,445	7,140,665	354,220	5.2%
Personnel Expense	(3,655,216)	(3,260,880)	394,336	-10.8%
Operating Expense	(2,162,988)	(1,559,478)	603,510	-27.9%
Non-Operating Exp	<u>(177,060)</u>	<u>(220,278)</u>	<u>(43,218)</u>	<u>24.4%</u>
Cash Net Income	791,181	2,100,029	1,308,848	165.4%

### 2019-20 Wastewater Operating Fund Projection (200)

	Budget	Projection	Variance	Var %
Revenue	11,218,074	11,431,751	213,677	1.9%
Personnel Expense	(3,898,549)	(4,001,353)	(102,804)	2.6%
Operating Expense	(2,817,361)	(2,582,631)	234,730	-8.3%
Non-Operating Exp	<u>(564,528)</u>	<u>(552,088)</u>	<u>12,440</u>	<u>-2.2%</u>
Cash Net Income	3,937,636	4,295,679	358,043	9.1%

### 2019-20 Deer Lodge Park Operating Fund Projection (300)

	Budget	Projection	Variance	Var %
Revenue	158,756	185,147	26,391	16.6%
Personnel Expense	(87,505)	(85,912)	1,593	-1.8%
Operating Expense	(59,244)	(39,931)	19,313	-32.6%
Water Purchase	<u>(23,000)</u>	<u>(21,398)</u>	<u>1,602</u>	<u>-7.0%</u>
Cash Net Income	(10,993)	37,905	48,898	444.8%

### 2019-20 Rimforest Operating Fund Projection (400)

	Budget	Projection	Variance	Var %
Revenue	272,026	274,928	2,902	1.1%
Personnel Expense	(123,909)	(111,731)	12,178	-9.8%
Operating Expense	(50,238)	(43,682)	6,556	-13.0%
Water Purchase	<u>(55,380)</u>	<u>(50,376)</u>	<u>5,004</u>	<u>-9.0%</u>
Cash Net Income	42,499	69,139	26,640	62.7%