

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

MEMORANDUM

DATE: March 22, 2022

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

FROM: **JOHN O'BRIEN, Finance Manager**
CATHERINE CERRI, General Manager

SUBJECT: **FISCAL YEAR 2022-23 AND 2023-24 BUDGET
PLANNING**

A. RECOMMENDATION

This is an information item only.

B. REASON FOR RECOMMENDATION

This is an information 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 2022-23 and 2023-24 budget cycle in February of this year and are in the process of preparing the operating expense budgets.

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 escalation 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 2021 rate study. Preliminary budget figures for 2022-23 and 2023-24 are based upon these assumptions, as listed below.

Assumptions	2022-23	2023-24
Revenue Growth (Rates-Water)	5.02%	5.02%
Revenue Growth (Rates-Rimforest)	20.0%	20.0%
Revenue Growth (Rates-Deer Lodge Park)	3.5%	3.5%
Revenue Growth (Rates-Wastewater)	3.6%	3.6%
Interest Income Growth	0.25%	0.25%
Employee Expenses	5.0%	5.0%
Treatment Expenses	3.3%	3.3%
Purchased Water Expenses	7.0%	7.0%
Equipment Expenses	2.5%	2.5%
Fuels and Fleet Expenses	3.1%	3.1%
Construction Expenses	3.4%	3.4%
Utility Expenses	4.8%	4.8%
Other Expenses	2.6%	2.6%

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 2021-22 year are attached.

Operating revenue – Water operating revenue primarily includes charges for water services within the District’s boundaries. A slight increase in overall usage is expected in the coming two budget years. However, assumed annual rate increases expect to provide the District with a 5.02%, a 20.0% and a 3.5% overall revenue increase year over year for Arrowhead Wood, Rim Forest and Deer Lodge Park, respectively, compared to the last budgeted year of 2021-22. 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 3.6% based on assumed rate increases and projected assessed property valuations within the District compared to the previously budgeted year of 2021-22.

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 are increasing by 3.6% for 2020-21 and 3.5% for 2021-22.

Economic Climate – The past two years have been very volatile with the domestic and global economic impact of the COVID-19 virus. The coming years which are subject to this budget are also expected to be uncertain with inflation and

geopolitical issues being in the forefront. 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 and therefore is not as severely impacted as other organizations that are more dependent on direct consumer spending.

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 information item only.

E. ENVIRONMENTAL IMPACT

This is an information item only.

F. ATTACHMENTS

Projected 2021-22 Operating Results

Projected 2021-22 Operating Results

2021-22 Water Operating Fund Projection (100)

Revenue	7,165,399	7,680,740	515,341	7.2%
Personnel Expense	(3,597,233)	(3,532,156)	65,077	-1.8%
Operating Expense	(2,377,793)	(1,869,782)	508,011	-21.4%
Non-Operating Exp	<u>(166,416)</u>	<u>(227,210)</u>	<u>(60,794)</u>	<u>36.5%</u>
Cash Net Income	1,023,957	2,051,591	1,027,634	100.4%

2021-22 Wastewater Operating Fund Projection (200)

	Budget	Projection	Variance	Var %
Revenue	11,768,063	12,028,631	260,568	2.2%
Personnel Expense	(4,341,113)	(4,147,330)	193,783	-4.5%
Operating Expense	(2,865,222)	(2,251,868)	613,354	-21.4%
Non-Operating Exp	<u>(504,384)</u>	<u>(489,812)</u>	<u>14,572</u>	<u>-2.9%</u>
Cash Net Income	4,057,344	5,139,621	1,082,277	26.7%

2021-22 Deer Lodge Park Operating Fund Projection (300)

	Budget	Projection	Variance	Var %
Revenue	175,435	199,470	24,035	13.7%
Personnel Expense	(102,611)	(93,883)	8,728	-8.5%
Operating Expense	(62,175)	(51,460)	10,715	-17.2%
Water Purchase	<u>(30,261)</u>	<u>(33,211)</u>	<u>(2,950)</u>	<u>9.7%</u>
Cash Net Income	(19,612)	20,915	40,527	444.8%

2021-22 Rimforest Operating Fund Projection (400)

	Budget	Projection	Variance	Var %
Revenue	272,057	264,462	(7,595)	-2.8%
Personnel Expense	(129,803)	(116,113)	13,690	-10.5%
Operating Expense	(55,474)	(46,812)	8,662	-15.6%
Water Purchase	<u>(58,178)</u>	<u>(56,123)</u>	<u>2,055</u>	<u>-3.5%</u>
Cash Net Income	28,602	45,414	16,812	58.8%