



## **EID 2013 – 2014 Operating Budget**

The El Dorado Irrigation District Board of Directors adopted the District's current operating budget during the November 13, 2012, regularly scheduled Board meeting. Estimated revenues and expenses and other relevant information pertaining to the budget are contained in the following

Agenda Item Summary

**EL DORADO IRRIGATION DISTRICT**

**Agenda Item Summary**

**Board Meeting Date:** November 13, 2012

**Date Prepared:** October 29, 2012

**Prepared by:** Mark Price

**Agenda Title:** Budget

**Subject:** Consideration of the 2013-2014 Operating Budget

**Approvals (initial):**

**Preparer** \_\_\_\_\_

**Division Head** \_\_\_\_\_

**Department Head** \_\_\_\_\_

**Finance Manager** \_\_\_\_\_

**General Manager** \_\_\_\_\_

**EL DORADO IRRIGATION DISTRICT**

**Subject:** Consideration of the 2013-2014 Operating Budget

**Board Action:**

March 20, 2000:	The Board adopted a multi-year operating budget process.
December 13, 2010:	The Board adopted the 2011-2012 operating budget.
November 14, 2011:	The Board adopted the 2012 mid-cycle operating budget.
October 22, 2012:	The Board was presented the draft of the 2013-2014 operating budget.

**Board Policies/Administrative Regulations:**

**BP 3010:** It is the responsibility of the General Manager to inform the Board about financial operations of the District so the Board can make informed decisions and fully discharge its legal responsibilities in a fiscally sound manner. The Board shall adopt a two-year operating budget and may modify it prior to the end of the year.

**AR 3011:** It is the responsibility of the General Manager to develop the budget based on the priorities and needs of the District and its customers. The budget and any budget modification shall:

1. include, but not be limited to, operating expenses, debt, construction, and reserve funds;
2. meet all legal requirements;
3. support the District's mission;
4. maintain prudent levels of reserves in water, wastewater, hydroelectric, and recreation to fund contingencies that meet the District's debt service requirements;
5. allow the District to meet its financial obligations, including bond covenants;
6. be consistent with a financial plan that guides the District in satisfying its multi-year commitments; and
7. encourage public participation through required disclosures and public hearings.

Responsibility for overseeing the budget development process is assigned to the Director of Finance. Once the annual budget is prepared, the Board shall act on it.

**Summary of Issues:**

January 1, 2013 starts the District's next two-year operating budget cycle. In accordance with Board policy, the Board adopts a two-year budget and conducts a mid-cycle review to determine any changes that may be needed in the second year of the cycle. At the beginning of this two-year cycle, the proposed budget reflects the continuing slowdown in the economy.

Projected 2012 year-end expenditures are expected to be slightly lower than the adopted budget and approximately \$2 million less than actual 2008 operating expenses. The general manager gave staff direction to develop the 2013 operating budget using a 2% or less inflation rate over the current, adopted 2012 operating budget. The 2% inflation rate was also used in the projections for the Cost of Service Study and in the recent bond refinancing. The 2% target was met by staff, though the actual Consumer Price Index (CPI) increased by 3% during the last year, which impacts the cost of running the District. Essentially, staff was directed to, and did, absorb about \$430,000 in CPI increases. The proposed budget also eliminates six more positions within the District, representing approximately \$730,000 in savings and dropping the full-time equivalent FTE employee count to 221.5 compared to the 306 FTE on January 1, 2008.

On November 14, 2011, the Board adopted the 2012 budget that included a proposed increase to water rates, a change in the water rate structure and modification of rates to be collected by different rate classes to more fairly represent the cost of providing service to those classes. There were also modifications to the rate structures for wastewater and recycled water rates. The rate increases and restructuring were implemented effective April 1, 2012 after the Proposition 218 notice process was completed in March 2012.

With the necessary rates adopted, staff is now following the financial plan built into the Cost of Service Study. Revenues will cover the day-to-day operating costs and debt service as required by the District's rate covenants. Net revenues in excess of operations and debt service will be used to retire debt early or pay for capital projects.

### **Staff Analysis/Evaluation:**

In anticipation of each two-year budget cycle and mid-cycle review, staff prepares projected operating revenues and expenses for Board consideration. The Finance Department estimates revenues based on relevant economic factors such as interest rates, investments, and market trends. At the beginning of the budget review, Finance staff provides department heads and division managers with actual operating costs for the past three years through the most recent month of the current year, along with projections to the current year's end. Based on past and current expenditures, operational commitments for the coming year, and workload indicators, staff develops proposed budgets for the upcoming year.

### **Analysis of revenue projections for fiscal years 2012, 2013 and 2014:**

Table 1 compares the revenue projections for 2012, 2013, and 2014.

The revised revenue projections for 2012 are about \$3.8 million lower than those originally adopted for 2012. Wastewater rate revenue is projected to be lower by about \$1.6 million, primarily due to a temporary change adopted by the Board in January 2012 to use the lower of the last two years' winter quarter average for calculating wastewater bills versus the District (and industry standard) practice of using the most recent winter quarter average. Additionally, hydroelectric rate revenue is about \$1.3 million lower than budgeted due to below normal precipitation through most of the winter months. Finally, FCC revenue is expected to be approximately \$1.0 million lower than budgeted.

The projections are outlined in Table 1, which reflects the revised lower 2012 income and increases for 2013 and 2014 related to approved rate increases.

**Table 1: Revenue Projections for 2012, 2013 and 2014 (in millions of dollars)**

	<b>2012 Adopted Budget</b>	<b>2012 Revised Projections</b>	<b>2013 Proposed Budget</b>	<b>2014 Proposed Budget</b>
Water Sales and Services <sup>1</sup>	\$ 23.932	\$ 23.873	\$ 26.565	\$ 29.487
Wastewater Sales and Services <sup>1</sup>	20.362	18.559	21.381	22.450
Recycled Water Sales <sup>1</sup>	0.781	1.407	0.820	0.861
Hydropower Sales	8.000	6.750	8.000	8.000
Wholesale Contract-Placerville	0.432	0.432	0.440	0.449
Investment Income	0.850	0.850	0.902	0.850
FCCs <sup>1</sup>	3.000	2.000	3.000	3.000
Debt Surcharges	1.979	1.979	1.979	1.979
Property Tax	9.300	9.000	9.300	9.300
Other Income	2.006	2.006	2.006	2.006
Recreation	1.039	1.050	1.059	1.080
FEMA Reimbursement	0.250	0.250	0.250	0.250
<b>Total</b>	<b>\$ 71.931</b>	<b>\$ 68.156</b>	<b>\$ 75.702</b>	<b>\$ 79.712</b>

<sup>1</sup>2013 and 2014 projections include approved 11% rate increases for water rates and 5% rate increases for wastewater and recycled water rates

**Analysis of 2012, 2013, and 2014 budget and expense projections:**

Table 2 compares the adopted 2012 Board-adjusted budget and 2012 year-end expense projections to the 2013-2014 proposed budgets by departments. As illustrated in Table 2, the proposed 2013 operating budget is expected to be almost identical to the 2012 adopted budget, inflated by 2% as forecasted in the Cost of Service Study. The proposed budget absorbs 1% of the CPI increases encountered over the past year, 5% increases to energy, increases to pension costs from PERS and the sudden spike in petroleum products including gas, diesel, lubricants and chemicals.

Table 3 identifies expenses by type. Revised 2012 salaries reflect the effect of six positions vacated during 2012 and eliminated in the 2013 budget resulting in about a \$730,000 savings in 2013, as well as other positions vacant for portions of the 2012 fiscal year. 2013 wages will rise due to COLAs, merit increases and vacant positions deemed essential staffed for the entire year. Benefits are projected to be up slightly for 2013 related to PERS increases and offset by changes negotiated for medical benefits given to employees and retirees estimated to save the District \$430,000 in 2013. The District’s current staff of 221.5 FTEs represents a 28% decrease from January 1, 2008.

For 2013, overall salaries and benefits charged to operations are projected to be down approximately \$300,000 from the 2012 budget. Material and services costs are projected to increase from the 2012 budget by about \$1.1 million, driven by increasing electricity costs (\$0.3 million), electrical breaker

testing at the water and wastewater facilities (\$0.1 million), reservoir cleaning at the El Dorado Hills wastewater treatment plant (\$0.4 million), and an increase in FERC land use fees (\$0.3 million).

**Table 2: 2012 Adopted Operating Budget Expenses vs. 2013-2014 Proposed Budgets by Department (in millions of dollars)**

<b>Departments</b>	<b>2012 Adopted Budget</b>	<b>2012 Revised Projections</b>	<b>2013 Proposed Budget</b>	<b>2014 Proposed Budget</b>
Office of the General Manager	\$ 2.586	\$ 1.816	\$ 2.127	\$ 2.169
Communications /Community Relations	0.539	0.494	0.532	0.543
Finance	7.471	7.168	7.533	7.684
Human Resources	2.199	2.102	2.083	2.125
Information Technology	2.445	2.229	2.036	2.077
Engineering				
-Engineering Administration Division	0.197	0.144	0.193	0.197
-Records Management Division	0.517	0.428	0.443	0.452
-Water/Hydro Engineering Division	0.108	(0.059)	0.158	0.161
-Wastewater/Recycled Engineering Division	0.184	0.169	0.093	0.094
-Drafting Services Division	0.341	0.408	0.415	0.424
-Construction Inspection Division	0.024	0.097	0.005	0.005
-Environmental Compliance/Water Policy Division	1.149	1.006	1.180	1.204
Operations				
-Administration	0.368	0.449	0.461	0.470
-Water Operations	9.307	9.366	10.250	10.455
-Wastewater Operations	8.854	10.207	9.902	10.100
-Recycled Water Operations	0.573	0.571	0.636	0.648
-Hydroelectric Operations	3.575	3.346	3.256	3.321
-Recreation Operations	1.205	1.148	1.203	1.227
<b>Subtotal</b>	<b>41.642</b>	<b>41.089</b>	<b>42.506</b>	<b>43.356</b>
Letter of Credit Fee	1.328	0.941	1.328	1.328
<b>Total</b>	<b>\$ 42.970</b>	<b>\$ 42.030</b>	<b>\$ 43.834</b>	<b>\$ 44.684</b>

**Table 3: 2012 Adopted Operating Budget Expenses vs. 2013-2014 Proposed Budgets by Expense Type (in millions of dollars)**

	<b>2012 Adopted Budget</b>	<b>2012 Revised Projections</b>	<b>2013 Proposed Budget</b>	<b>2014 Proposed Budget</b>
Salaries	\$ 17.528	\$ 16.658	\$ 17.295	\$ 17.641
Benefits (Table 4)	10.814	10.656	10.865	11.082
Materials and Services				
-Operating Supplies	3.633	3.442	3.421	3.489
-Chemicals	1.096	1.062	1.133	1.156
-Administration	2.988	3.010	3.266	3.331
-Utilities	3.726	4.151	4.038	4.120
-Professional Services	2.915	3.052	3.217	3.281
-Repair Services	0.724	0.653	1.122	1.144
-Insurance	0.786	0.814	0.821	0.837
-Operating Capital Outlay	0.115	0.220	0.095	0.097
-Contingency	0.500		0.500	0.510
Grants	(0.100)		(0.146)	(0.149)
CIP and Devel. Reim. Labor Offsets	(3.083)	(2.629)	(3.121)	(3.183)
<b>Subtotal</b>	<b>41.642</b>	<b>41.089</b>	<b>42.506</b>	<b>43.356</b>
Letter of Credit Fee	1.328	0.941	1.328	1.328
<b>Total</b>	<b>\$ 42.970</b>	<b>\$ 42.030</b>	<b>\$ 43.834</b>	<b>\$ 44.684</b>

After inquiries by the Board at the October 22, 2012 budget workshop, staff has provided a breakdown of employee benefits by type in Table 4 (below).

**Table 4: 2012-2014 Employee Benefits by Type (in millions of dollars)**

	<b>2012 Adopted Budget</b>	<b>2012 Revised Projections</b>	<b>2013 Proposed Budget</b>	<b>2014 Proposed Budget</b>
Medical	\$ 3.325	\$ 3.027	\$ 3.067	\$ 3.128
Retiree Health	1.000	1.032	0.945	0.964
Dental	0.306	0.274	0.269	0.275
Vision	0.039	0.035	0.040	0.040
EAP	0.006	0.006	0.006	0.007
Life	0.043	0.043	0.043	0.044
Workers' Compensation	0.395	0.395	0.395	0.403
FICA	1.293	1.274	1.291	1.317
PERS	4.299	4.471	4.702	4.796
Wellness	0.033	0.033	0.033	0.033
Vehicle Allowance	0.042	0.042	0.042	0.042
Other Employee Costs	0.033	0.024	0.032	0.033
<b>Total</b>	<b>\$ 10.814</b>	<b>\$ 10.656</b>	<b>\$ 10.865</b>	<b>\$ 11.082</b>

**Debt service coverage:**

The Installment Purchase Agreements associated with the District’s debt issuances require the District—to the fullest extent permitted by law—to fix, prescribe, and collect rates and charges so that revenues exceed operating expenditures, including debt payments, by 1.25. The District may make adjustments from time to time in its rates and charges, but cannot reduce those rates and charges unless the District’s net revenues from reduced rates and charges will at all times be sufficient to meet the debt service coverage of 1.25. Table 5 shows that projected debt service coverage for 2012 will meet requirements despite a reduction in revenues. The debt service for 2012 is lower than budgeted related to continuing low interest rates on the District’s 2008 Variable Rate Debt Obligations (VRDO) debt. The District has paid weekly interest rates varying from 0.12% to 0.22% throughout the year.

**Table 5: Revised debt service coverage for 2012 and 2013 (in millions of dollars)**

	<b>2012 Adopted Budget</b>	<b>2012 Revised Projection</b>	<b>2013 Proposed Budget</b>
Estimated revenues	\$ 71.931	\$ 68.156	\$ 75.702
Estimated operating expenses	(42.970)	(42.030)	(43.834)
Net revenues	\$ 28.961	\$ 26.126	\$ 31.868
State loans (preexisting)	1.079	1.079	1.079
Available net revenues	27.882	25.047	30.789
Debt service <sup>1</sup>	19.273	17.059	20.759
Debt service ratio	1.45	1.47	1.48
Internal (1.0) debt service ratio	1.29	1.35	1.34

<sup>1</sup>Debt service in 2013 is projected to be higher due to an anticipated interest rate increase related to the 2008A variable rate debt.

Table 6 shows the District is projected to meet the required debt coverage in 2013 and 2014 if revenues and expenditures continue to follow the projections of the financial plan incorporated within the Cost of Service Study.

**Table 6: Projected debt service coverage for 2013 and 2014 (in millions of dollars)**

	<b>2013 Proposed Budget</b>	<b>2014 Proposed Budget</b>
Estimated revenues	\$ 75.702	\$ 79.712
Estimated operating expenses	(43.834)	(44.684)
Net revenues	\$ 31.868	\$ 35.028
State loans (preexisting)	1.079	1.079
Available net revenues	30.789	33.949
Debt service <sup>1</sup>	20.759	24.801
Debt service ratio	1.48	1.37
Internal (1.0) debt service ratio	1.34	1.25

<sup>1</sup>Debt service for 2013 and 2014 is projected to be higher because of an anticipated higher interest rate on the 2008A variable debt and additionally in 2014 if the projected bond sale in 2013 occurs.



Beginning with the sale of the 1996 Revenue Bonds, the District has included FCC revenue in meeting its debt coverage requirements. As reflected in Table 7, the District exceeded the 1.25 coverage requirement every year except for 2004, when the State of California took local property tax revenues to help meet the State’s debt, and again in 2009. However, if the District had not received any FCCs during those years, the coverage test would not have been met—except for 2006, when the District received approximately \$8.0 million in reimbursements from the Federal Emergency Management Agency.

One of the initiatives staff proposed and the Board adopted in February 2010 was a new internal 1.0 debt coverage test. This test is identical to the bond test of 1.25 except it excludes FCCs from the calculation. By creating budgets to meet this test the District is placed in a better position to meet all of its obligations for a given year, including operating expenses and debt payments without relying on FCC income or using reserves. The Cost of Service Study incorporated this philosophy of having rate revenue cover operational costs.

**Table 7: Debt service coverage 2003-2011 (in millions of dollars)**

Year	Net Revenues	Debt service	Coverage	FCCs	Coverage if FCCs excluded
2003	\$13.044	\$7.414	1.76	\$12.775	0.04
2004	10.312	11.435	0.90	9.835	0.04
2005	18.578	11.624	1.60	15.884	0.23
2006	36.284	15.561	2.33	11.470	1.59
2007	27.349	15.276	1.79	15.237	0.79
2008	25.919	17.792	1.46	11.453	0.81
2009	12.125	14.755	0.82	1.099	0.75
2010	22.224	16.133	1.38	0.577	1.34
2011	31.803	19.865	1.60	1.565	1.52

**Five-Year Forecast**

Beginning with the 2011 budget process staff now presents its five-year financial forecast with the budget. This forecast is regularly prepared and updated and now is included as part of the budget process. The forecast, used mainly for management purposes and for inclusion into bond documents that are prepared from time to time, is updated through the year as financial results are reported. Table 8 below reflects staff’s current five-year forecast for the District.

**Table 8: 2013-2017 Five-Year Forecast (in millions of dollars)**

	Projected <u>2013</u>	Projected <u>2014</u>	Projected <u>2015</u>	Projected <u>2016</u>	Projected <u>2017</u>
Cash balance - January 1	\$ 81.9	\$ 136.1	\$ 130.8	\$ 122.9	\$ 121.5
Total Debt Proceeds <sup>1</sup>	60.0	-	-	-	-
Total revenues	75.7	79.7	84.2	86.9	89.3
Total maintenance and operation costs	43.8	44.7	45.6	46.4	47.3
Net revenues	31.9	35.0	38.6	40.5	42.0
Pre-existing state obligations	1.1	1.1	1.1	1.1	1.1
Net revenues available after preexisting obligations	30.8	33.9	37.5	39.4	40.9
Senior debt service <sup>3</sup>	20.8	24.8	28.4	28.4	33.6
total CIP <sup>2</sup>	15.8	14.4	17.0	12.4	9.0
Future year debt prepayment	-	-	-	-	-
Cash balance - December 31	\$ 136.1	\$ 130.8	\$ 122.9	\$ 121.5	\$ 119.8
Senior debt service coverage	1.48	1.37	1.32	1.39	1.22
Alternative senior debt coverage					
Total FCCs in revenue above	3.0	3.0	5.0	5.0	5.0
FCCs removed from calculation	3.0	3.0	5.0	5.0	5.0
Senior debt coverage-internal test	1.34	1.25	1.15	1.21	1.07

<sup>1</sup> Potential \$60 million bond sale (78.61% water / 21.39% wastewater)

<sup>2</sup> Adopted 2013-2017 CIP plan at 80%

<sup>3</sup> Prepayment on 2004A COP's in 2012 of \$3 million

**Conclusion**

The 2013-2014 operating budget presents a number of challenging financial issues because of ongoing national, state, and local economic conditions. Like all of EID’s two-year budgets, staff approached the process first and foremost with the priority of maintaining a reliable level of service to customers that protects public health and safety, and the environment. Staff believes this objective will be achieved under the proposed 2013 operating budget. Staff also believes that if the projected revenues are met and the operating budgets are not significantly exceeded because of unforeseen circumstances, then there will be enough net revenue in 2013 and 2014 to meet the 1.25 coverage requirements in the District’s bond covenants and enough revenue, excluding FCCs, to meet our internal 1.0 test.

**Board Decision/Options:**

- Option 1: Adopt the El Dorado Irrigation District 2013-2014 operating budget in the amount of \$43.834 million for 2013, and \$44.684 million for 2014.
- Option 2: Take other action as recommended by the Board.
- Option 3: Take no action.

**Staff/General Manager Recommendation:**

- Option 1: Adopt the El Dorado Irrigation District 2013-2014 operating budget in the amount of \$43.834 million for 2013, and \$44.684 million for 2014.

**Supporting Documents Attached:**

- Appendix 1: Cash Flow Projection for 2013
- Appendix 2: Total District Summary of Materials and Services by Account
- Appendix 3: Office of the General Manager Materials and Services by Account
- Appendix 4: Human Resources Materials and Services by Account
- Appendix 5: Communications/Community Relations Materials and Services by Account
- Appendix 6: Finance Materials and Services by Account
- Appendix 7: Information Technology Materials and Services by Account
- Appendix 8: Engineering Materials and Services by Account
- Appendix 9: Water Operations Materials and Services by Account
- Appendix 10: Wastewater Operations Materials and Services by Account
- Appendix 11: Recycled Water Operations Materials and Services by Account
- Appendix 12: Hydroelectric Operations Materials and Services by Account
- Appendix 13: Recreation Materials and Services by Account

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Mark T. Price  
Director of Finance

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Tom McKinney  
Director of Operations

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Brian Mueller  
Director of Engineering

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Mary Lynn Carlton  
Director of Communications/Community Relations

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Vicki Hoffman  
Director of Human Resources

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Tim Ranstrom  
Director of Information Technology

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Thomas D. Cumpston  
General Counsel

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Jim Abercrombie  
General Manager

**Appendix 1: Cash Flow Projections for 2013 (in millions of dollars)**

	<b>2011</b>	<b>Projected 2012</b>	<b>Projected 3/31/2013</b>	<b>Projected 6/30/2013</b>	<b>Projected 9/30/2013</b>	<b>Projected 12/31/2013</b>	<b>Total Projected 2013</b>
Beginning Cash Balance	\$102.5	\$ 94.9	\$ 81.9	\$ 72.4	\$ 72.5	\$ 68.2	\$ 81.9
Total Revenues	73.1	68.2	16.0	16.6	18.6	24.5	75.7
Bond Proceeds						60.0	60.0
Operating Expenses	40.7	42.0	11.0	10.9	11.0	10.9	43.8
Debt Payments	19.9	18.2	10.5	1.7	7.9	1.8	21.9
Capital Expenditures	18.1	12.0	4.0	3.9	4.0	3.9	15.8
Future Year Debt Payment	2.0	3.0					
OPEB Funding		6.0					
Ending Cash Balance	\$ 94.9	\$ 81.9	\$ 72.4	\$ 72.5	\$ 68.2	\$ 136.1	\$ 136.1
Debt Service Coverage Ratio	1.52	1.47				1.48	1.48