

# Memorandum

**To:** Board of Directors  
**From:** Rex Delizo, District Manager  
**Date:** June 28, 2012  
**Re:** Budget for Fiscal Year 2012-2013

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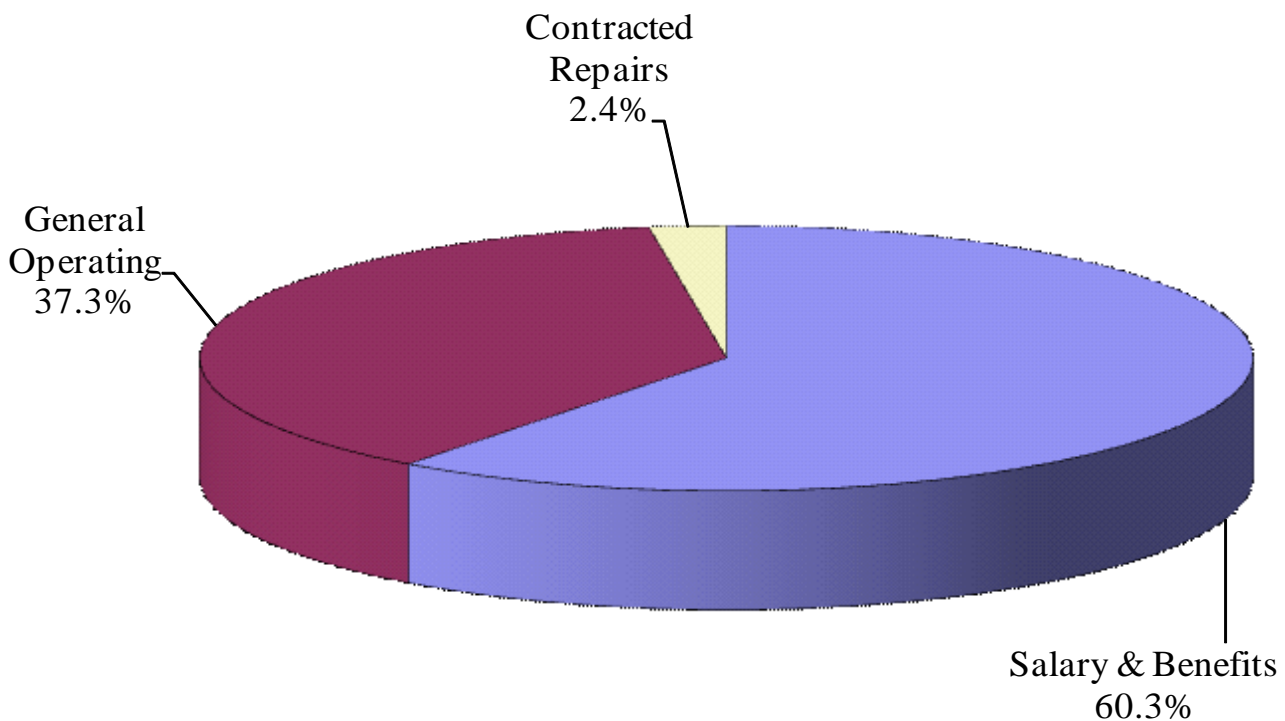
This fiscal year (FY) 2012-2013 budget is presented for review and consideration by the Board of Directors. This budget includes all revenue and expenses for FY 2012-2013. Supplemental data regarding reserve fund levels is provided in attached exhibits.

## **BUDGET OVERVIEW**

### **Expenses**

The operating budget for FY 2012-13 is \$2,285,059. The budget includes all operations, maintenance, and administrative expenses. The budget also includes the funding of the annual required contribution for “other post-employment benefits” or retiree health care funding. No additional staff is requested in this budget. Salary and benefit expenses are budgeted at \$1,377,769 (about 60.3% of operating budget), operating and general expenses at \$853,290 (37.3%), and contracted repairs at \$54,000 (2.4%).

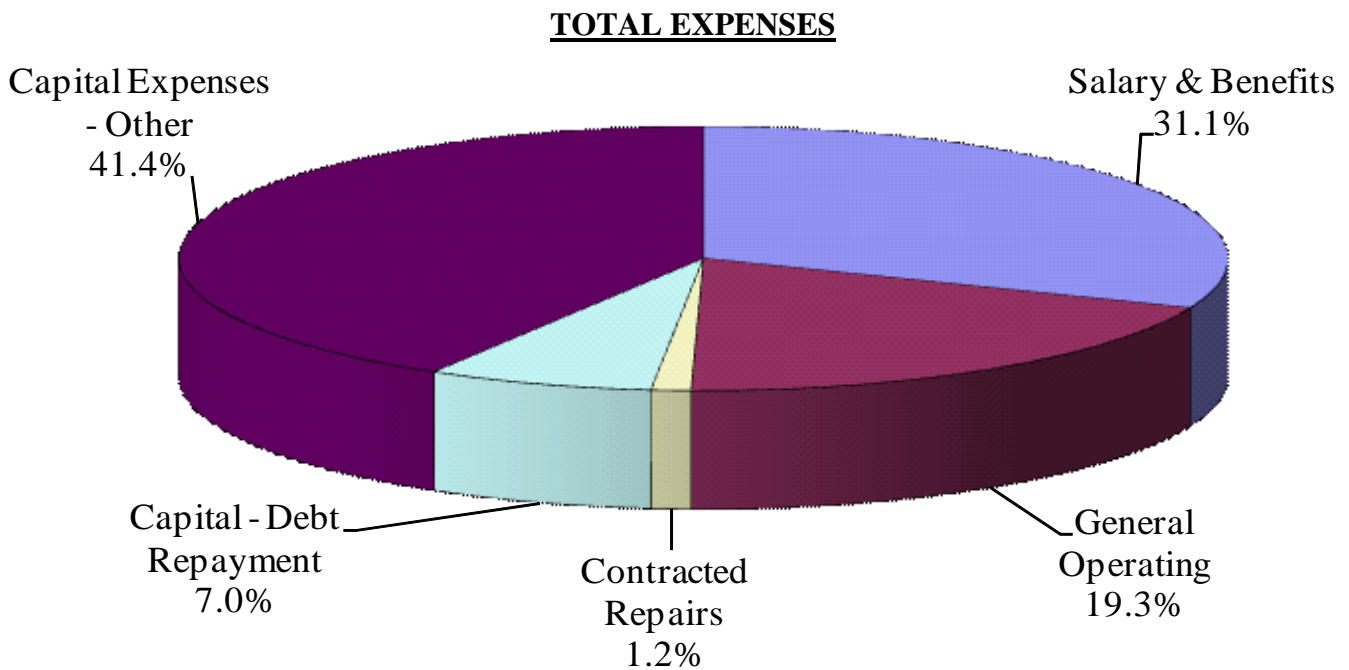
### **OPERATING EXPENSES**



The most significant change from historical budgets, except for last 2 fiscal years' budgets, is the additional expense that is required as a result of the District's revised discharge permit that was issued in October 2009. There were subsequent orders from the Environmental Protection Agency (EPA) in October 2009 and a pending Department of Justice suit that will require extensive technical studies and planning, as well as increased capital expenditures in order to satisfy the requirements of these federal actions. The overall result is that operating and capital expenses will be greater than historical ones for the foreseeable future.

The capital expense budget is \$2,143,577. The District will continue its on-going Sewer Rehabilitation Program (SRP) this next fiscal year with an annual rehabilitation project for \$1,240,000 in the capital budget. An amount of \$30,000 is included for manhole adjustments associated with paving projects based on a projection of El Cerrito and Richmond paving projects. Rehabilitation of the Burlingame Pump Station is budgeted at \$180,000 and \$25,000 is included for interceptor cleaning as renewal projects. Debt service (\$308,577) is also included in the capital budget again this year. An additional \$360,000 is requested for capital equipment expenses, including replacement of the hydro-flusher truck with a combination vactor/hydro-flusher truck (\$350,000) and two more "smart" manhole covers (\$10,000).

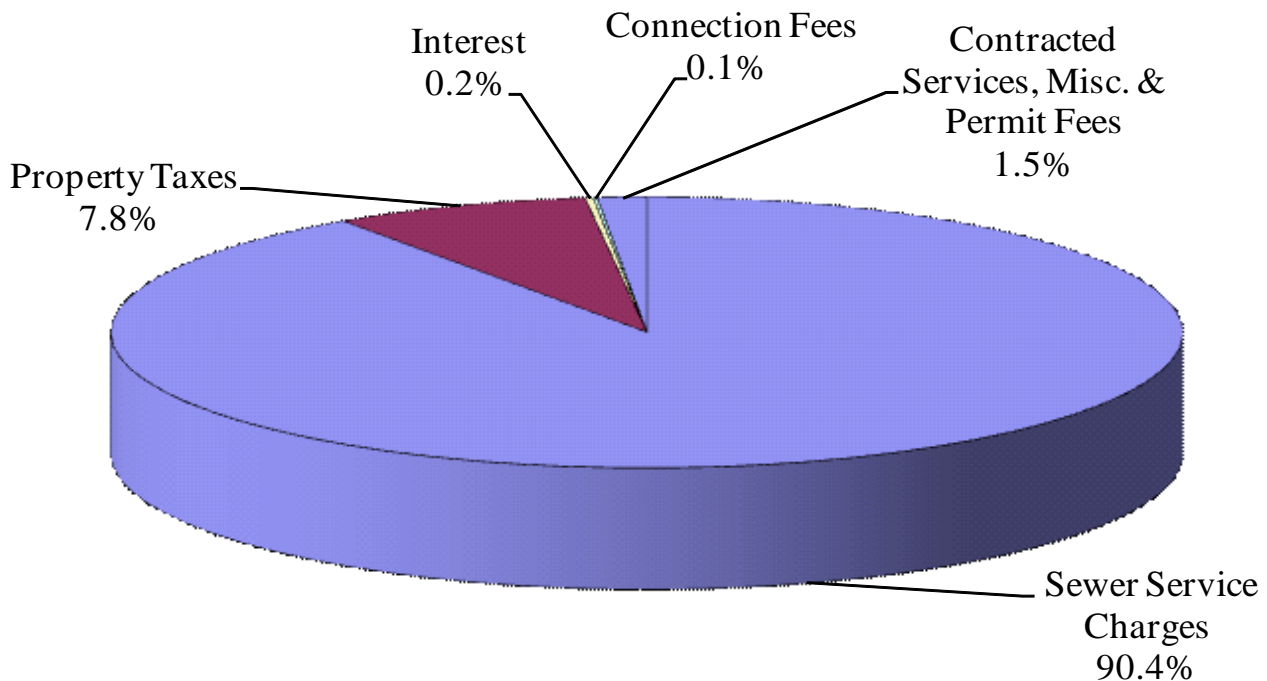
The total funding for operating and capital expenses required for the proposed FY 2012-2013 budget is \$4,428,636. Salary and benefit expenses are budgeted at \$1,377,769 (31.1% of total budget), operating and general expenses at \$853,290 (19.3%), debt repayment at \$308,577 (7.0%), repairs at \$54,000 (1.2%), and capital expenses (excluding debt) at \$1,835,000 (41.4%).



**Revenue**

The budget includes \$4,110,961 in revenue, exclusive of the transfer of reserve funds. The budget estimates service charge revenue at \$3,715,661 (90.4% of total revenue), property tax at \$319,300 (7.8%), interest income at \$10,000 (0.2%), connection fees at \$5,000 (0.1%), and contracted services, miscellaneous income and permit fees at \$61,000 (1.5%). It is estimated that \$317,675 from District reserves will be needed to support all expenses.

**REVENUE without TRANSFER from RESERVES**



**BUDGET CONTENTS**

The budget detail sheets are similar to those used in previous years, and they show the approved budget amounts and estimated final expenditures for the previous fiscal year and the proposed budget amount for next fiscal year. The detail includes the budget for all expense categories in both Operations and Administration accounts. Both capital and operating expenses are included.

The following is a brief description of attached exhibits:

1. Revenue and Expense Summary (Exhibits A & B). This information shows current sources of revenue, expenses, and compares them with the forecasts for proposed revenue and expenses for the next fiscal year.
2. Budget Composite (Exhibit C). This item shows the allocation of expenses by the two District departments (Operations and Administration).
3. Reconciliation of Fund Balances (Exhibit D). This table shows the allocation of revenue to and expenses from the various funds of the District as well as internal fund transfers necessary to meet the targeted fund balances established by the Board.
4. Financial Model through Year 2030. The spreadsheet and graph indicate the estimated operating and capital expenses up to 2030, and how the financial state of the District is affected. Estimated service rate changes needed to support District expenses and reserve requirements are also projected for the period shown.

### **Proposed Budget (Ref: Detail Sheets & Exhibits A-D)**

**Operating Expenses:** The proposed operating budget for next fiscal year of \$2,285,059 represents an increase of about 9.9% versus last year's budget of \$2,079,625 for similar budget items. The most significant difference from the previous budget is \$30,000 budgeted for election expenses in case the upcoming election goes to ballot. FY 2012-13 is also the last year of a three year rate increase, so there is roughly \$22,000 budgeted for support and public noticing in case it is decided that there will be a rate increase for FY 2013-14. The retiree health "contribution" is \$19,900 to fully fund the annual required contribution determined in the previous OPEB actuarial study. Actual payments to retirees will be about \$17,000 this year. The budget also includes smoke testing of 13% of the District main lines at a cost of \$48,000.

Contracted repair expenses are included as part of the operating expense budget again this year. The budget for repairs is set at \$54,000 to stay consistent with the projections from the rate study conducted in 2010.

**Capital Expenses:** The Standard Pipebursting Project (#12201) is included at a budget amount of \$1,240,000, and provides for the flexible and efficient replacement of main lines. This project continues to be the primary means of main line replacement. Also included in the capital budget are \$30,000 for manhole adjustments based on the El Cerrito's and Richmond's current plans to pave City streets, \$180,000 for a pump station rehabilitation, and \$25,000 for interceptor cleaning.

**Capital Equipment:** Capital equipment expenses is included at a budget amount of \$360,000 for replacement of the hydro-flusher truck with a combination vactor/hydro-flusher truck (\$350,000) and two more “smart” manhole covers (\$10,000).

**Revenue:** The District’s principal source of revenue is the annual sewer service charge. A three year rate increase was approved at the Board meeting on June 24, 2010 and provides an increase of about \$450,000 in service charge revenue this year, for a total amount of about \$3,715,661. Despite the increase in revenue from the rate increase, the use of reserve funds will be needed to support planned expenditures in the next fiscal year. Interest revenue will again be significantly lower than in previous years due to continued “low” interest rates, resulting in an estimated amount of \$10,000. Connection fees are budgeted at \$5,000, recognizing the very slow development climate in the past two years that is expected to continue. Permit fees and miscellaneous income should be relatively consistent with last year’s amounts. Property tax revenue is budgeted at \$319,300 which is about the amount received last fiscal year but is uncertain given the State’s financial issues. There is a possibility that property tax revenue will not be received next fiscal year.

**Fund Balances (Ref: Exhibit D)**

Exhibit D presents the reconciliation of fund balances for next fiscal year, based on the projected balances for June 30, 2012. The table shows the allocation of revenue and expenses to and from the respective reserve funds, produces the year-end balance of each reserve fund, and compares each fund balance to its targeted reserve balance. Reserve fund balances are projected to be about \$125,000 less than the targets at the end of FY 2012-2013.

**FY 2011-2012 BUDGET PERFORMANCE**

The final operating expenses for fiscal year FY 2011-2012 have not been settled, but staff is confident that total operating expenses will be less than the budgeted amount. Total capital expenses are also expected to be less than the amount budgeted since several budgeted expenses will not be spent including flow meters, a new GIS/CMMS system and Burlingame Pump Station rehabilitation which is being carried over to next fiscal year.

**FUTURE COSTS**

The operating expenses included in this budget are similar to what is expected in the near future, with the exception of the special technical and legal assistance required (due to the Federal Administrative and Stipulated Orders). Operating expenses are consequently about \$100,000 more than what would be expected to be required on an on-going basis. Capital expenses are also about what will be expected in the future since system rehabilitation expenses will gradually increase from \$1,070,000 last fiscal year (2011-12) up to \$1,450,000 in fiscal year 2013-14, offsetting this year’s one-time expense of \$350,000 for a new combination vactor/hydro-flusher truck.



**STEGE SANITARY DISTRICT  
REVENUE SUMMARY**

**FISCAL YEAR 2012-2013**

**EXHIBIT A**

<b>ITEM</b>	<b>As of 6/22/12 REVENUE 2011-2012</b>	<b>REMAINING BUDGET 2011-2012</b>	<b>APPROVED BUDGET 2011-2012</b>	<b>PROPOSED BUDGET 2012-2013</b>	<b>% Change 11-12 to 12-13</b>	<b>COMMENTS</b>
<b>REVENUE</b>						
<b>I. SEWER OPERATION FUND (3418)</b>						
Non Operating Income:						
Property Tax	\$ 282,098	-9%	\$ 310,000	\$ 319,300	3%	est. per rate study
Interest	\$ 1,473	-94%	\$ 25,000	\$ 5,000	-80%	
Miscellaneous	\$ 6,295	-70%	\$ 21,000	\$ 21,000	0%	
Operating Income:						
Permit & Inspection Fees	\$ 8,412	-66%	\$ 25,000	\$ 25,000	0%	
Sewer Service Charges	\$ 2,204,193	-5%	\$ 2,320,030	\$ 2,645,551	14%	increase 14% overall
Contracted Services	\$ 18,692	25%	\$ 15,000	\$ 15,000	0%	
SubTotal	\$ <b>2,521,162</b>	<b>-7%</b>	\$ <b>2,716,030</b>	\$ <b>3,030,851</b>	<b>12%</b>	
<b>II. CAPITAL FUND (3423)</b>						
Non-Operating Income:						
Interest	\$ 3,950	-84%	\$ 25,000	\$ 5,000	-80%	
Operating Income:						
Capital Service Charges	\$ 891,584	-5%	\$ 937,980	\$ 1,070,110	14%	increase 14% overall
Connection Fees	\$ 8,096	62%	\$ 5,000	\$ 5,000	0%	
SubTotal	\$ <b>903,630</b>	<b>-7%</b>	\$ <b>967,980</b>	\$ <b>1,080,110</b>	<b>12%</b>	
<b>III. RETIREE HEALTH CARE FUND</b>						
Non-Operating Income						
Interest						
<b>IV. OTHER FUND SOURCES</b>						
Transfer FROM/(TO) Reserves	\$ -	0%	\$ 76,238	\$ 317,675	317%	
State Revolving Fund Loan	\$ -	0%	\$ -	\$ -	0%	
SubTotal	\$ -	<b>0%</b>	\$ <b>76,238</b>	\$ <b>317,675</b>	<b>317%</b>	
<b>TOTAL REVENUE</b>	\$ <b>3,424,792</b>	<b>-9%</b>	\$ <b>3,760,248</b>	\$ <b>4,428,636</b>	<b>18%</b>	

**STEGE SANITARY DISTRICT  
REVENUE AND EXPENSE SUMMARY**

**FISCAL YEAR 2012-2013**

**EXHIBIT B**

<b>ITEM</b>	<b>As of 6/22/12 EXPENDITURES 2011-2012</b>	<b>REMAINING BUDGET 2011-2012</b>	<b>APPROVED BUDGET 2011-2012</b>	<b>PROPOSED BUDGET 2012-2013</b>	<b>% Change 11-12 to 12-13</b>	<b>COMMENTS</b>
<b>TOTAL REVENUE FROM PAGE 1</b>	<b>\$ 3,424,792</b>	<b>-9%</b>	<b>\$ 3,760,248</b>	<b>\$ 4,428,636</b>	<b>18%</b>	
<b>EXPENSES:</b>						
<b>OPERATING EXPENSES:</b>						
Dept 41 - Maintenance/Engineering	\$ 1,323,751	-13%	\$ 1,514,370	\$ 1,598,903	6%	
Dept 41 - Pump Stations	\$ 5,920	-7%	\$ 6,380	\$ 9,170	44%	Canon Pump Station Repairs
Dept 41 - Contracted Repairs	\$ 38,677	11%	\$ 35,000	\$ 54,000	54%	Per 2010 Rate Study
Dept 45 - General & Administration	\$ 415,142	-21%	\$ 523,875	\$ 622,986	19%	Rate Mailers
<b>SUBTOTAL OPERATING EXPENSES</b>	<b>\$ 1,783,490</b>	<b>-14%</b>	<b>\$ 2,079,625</b>	<b>\$ 2,285,059</b>	<b>9.9%</b>	
<b>CAPITAL EXPENSES:</b>						
Dept 41 - Capital Equipment	\$ 75,533	-52%	\$ 157,000	\$ 360,000	129%	Hydro/Vactor
Dept 41 - Debt Repayment -SRF Loan	\$ 308,623	0%	\$ 308,623	\$ 308,577	0%	
Dept 41 - Construction	\$ 780,003	-36%	\$ 1,215,000	\$ 1,475,000	21%	
<b>SUBTOTAL CAPITAL EXPENSES</b>	<b>\$ 1,164,158</b>	<b>-31%</b>	<b>\$ 1,680,623</b>	<b>\$ 2,143,577</b>	<b>28%</b>	
<b>TOTAL</b>	<b>\$ 2,947,648</b>	<b>-22%</b>	<b>\$ 3,760,248</b>	<b>\$ 4,428,636</b>	<b>18%</b>	
<b>OTHER EXPENSES:</b>						
Transfer from Capital Fund	\$ -	0%	\$ -	\$ -	0%	
Retiree Medical Fund	\$ -	0%	\$ -	\$ -	0%	
<b>SUBTOTAL OTHER EXPENSES</b>	<b>\$ -</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0%</b>	
<b>TOTAL EXPENSES</b>	<b>\$ 2,947,648</b>	<b>-22%</b>	<b>\$ 3,760,248</b>	<b>\$ 4,428,636</b>	<b>18%</b>	



**STEGE SANITARY DISTRICT  
BUDGET - COMPOSITE**

**FISCAL YEAR 2012-2013**

**EXHIBIT C**

ITEM	PROPOSED BUDGET 2012-2013	OPERATIONS	GENERAL & ADMINISTRATION	COMMENTS
<b>OPERATING EXPENSES:</b>				
010 Salaries & Wages	\$ 949,687	\$ 789,217	\$ 160,470	
020 Employee Benefits	\$ 428,082	\$ 344,016	\$ 84,066	
030 Directors' Expenses	\$ 43,500	\$ -	\$ 43,500	
040 Election Expense	\$ 30,000	\$ -	\$ 30,000	
060 Gasoline, Oil, Fuel	\$ 19,000	\$ 19,000	\$ -	
070 Insurance	\$ 102,500	\$ 15,000	\$ 87,500	
080 Memberships	\$ 13,100	\$ 3,000	\$ 10,100	
090 Office Expense	\$ 8,100	\$ -	\$ 8,100	
100 Operating Supplies	\$ 33,200	\$ 33,200	\$ -	
110 Contractual Services	\$ 138,260	\$ 138,260	\$ -	
120 Professional Services	\$ 235,600	\$ 152,000	\$ 83,600	
130 Printing & Publications	\$ 36,800	\$ -	\$ 36,800	
140 Rents & Leases	\$ 1,800	\$ 1,000	\$ 800	
150 Repairs & Maintenance	\$ 74,960	\$ 70,960	\$ 4,000	
160 Revenue Collection Expenses	\$ 12,000	\$ -	\$ 12,000	
170 Travel & Meetings	\$ 15,350	\$ 13,000	\$ 2,350	
190 Utilities	\$ 26,000	\$ 2,000	\$ 24,000	
201 Miscellaneous	\$ 35,700	\$ -	\$ 35,700	
203 First Aid Supplies	\$ 500	\$ 500	\$ -	
204 Safety Equipment and Gloves	\$ 4,500	\$ 4,500	\$ -	
205 Uniforms and Boots	\$ 12,000	\$ 12,000	\$ -	
206 Safety Incentive Program	\$ 1,250	\$ 1,250	\$ -	
--- Pump Stations	\$ 9,170	\$ 9,170	\$ -	
207 Contracted Repairs	\$ 54,000	\$ 54,000	\$ -	
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 2,285,059</b>	<b>\$ 1,662,073</b>	<b>\$ 622,986</b>	
<b>CAPITAL EXPENSES:</b>				
650 DEBT REPAYMENT	\$ 308,577	\$ 308,577	\$ -	
300 CAPITAL EQUIPMENT	\$ 360,000	\$ 360,000	\$ -	
400 CONSTRUCTION	\$ 1,475,000	\$ 1,475,000	\$ -	
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ 2,143,577</b>	<b>\$ 2,143,577</b>	<b>\$ -</b>	
TRANSFER TO CAPITAL FUND	\$ -	\$ -	\$ -	
<b>TOTAL BUDGET</b>	<b>\$ 4,428,636</b>	<b>\$ 3,805,650</b>	<b>\$ 622,986</b>	

**STEGE SANITARY DISTRICT  
FISCAL YEAR 2012-2013  
RECONCILIATION OF FUND BALANCES**

**EXHIBIT D**

	AS BUDGETED 2012-2013	3418 OPERATIONS FUND	3423 CAPITAL FUND	ALL FUNDS TOTAL	RETIREE HEALTH CARE TRUST FUND
<b>Total Fund Balances As of 6/30/2012 (Est.)</b>	\$ 2,978,337.91	\$ 800,000.00	\$ 2,178,337.91		\$ 120,000.00
<b>OPERATING FUND</b>					
<b>2012-13 REVENUE</b>					
Contracted Services	\$ 15,000.00	\$ 15,000.00		\$ 15,000.00	
Interest Income	\$ 5,000.00	\$ 5,000.00		\$ 10,000.00	\$ 12,000.00
Permit, Inspection Fees	\$ 25,000.00	\$ 25,000.00		\$ 25,000.00	
Sewer Service Charges	\$ 2,645,550.90	\$ 2,645,550.90		\$ 3,715,661.37	
Miscellaneous	\$ 21,000.00	\$ 21,000.00		\$ 21,000.00	
Subtotal	\$ 2,711,550.90	\$ 2,711,550.90			
<b>2012-13 EXPENSES</b>					
General & Administration	\$ (622,986.42)	\$ (622,986.42)			
Operating/Pump Stations	\$ (1,662,073.01)	\$ (1,662,073.01)			
Subtotal	\$ (2,285,059.44)	\$ (2,285,059.44)			
<b>Net Gain (Loss)*</b>	<b>\$ 426,491.46</b>	<b>\$ 426,491.46</b>			
<b>CAPITAL FUND</b>					
<b>2012-13 REVENUE</b>					
Property Tax Collection	\$ 319,300.00		\$ 319,300.00	\$ 319,300.00	
Capital Service Charges	\$ 1,070,110.48		\$ 1,070,110.48		
SRF Loan	\$ -		\$ -		
Interest Income	\$ 5,000.00		\$ 5,000.00		
Connection Fees	\$ 5,000.00		\$ 5,000.00	\$ 5,000.00	
Subtotal	\$ 1,399,410.48		\$ 1,399,410.48	\$ 4,110,961.37	
<b>2012-13 EXPENSES</b>					
Capital Equipment	\$ (360,000.00)		\$ (360,000.00)		
Construction	\$ (1,475,000.00)		\$ (1,475,000.00)		
Debt Repayment (SRF Loan)	\$ (308,576.94)		\$ (308,576.94)		
Subtotal	\$ (2,143,576.94)		\$ (2,143,576.94)		
<b>Net Gain (Loss)*</b>	<b>\$ (744,166.46)</b>		<b>\$ (744,166.46)</b>		
<b>Fund Balances</b>					
Before transfers	\$ 2,660,662.91	\$ 1,226,491.46	\$ 1,434,171.45		
Transfers between Reserves		\$ 144,544.20	\$ (144,544.20)		
*Used from Reserves					
<b>Fund Balances As of 6/30/2013</b>	<b>\$ 2,660,662.91</b>	<b>\$ 1,371,035.66</b>	<b>\$ 1,289,627.25</b>		<b>\$ 132,000.00</b>

<b>Target Fund Balance</b>	<b>\$ 2,871,035.66</b>	<b>\$ 1,371,035.66</b>	<b>\$ 1,500,000.00</b>		
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(60% of annual O&M)

# Fiscal Year 2012-13 Fund Balance vs. Target Reserve Balance



STEGE SANITARY DISTRICT - FINANCIAL PLAN  
THROUGH YEAR 2030  
(\$ THOUSAND)  
FY 2012-13 BUDGET

FISCAL YEAR	(1) ANNUAL DEBT SERVICE	(2) DISTRICT O&M COSTS	(3) SYSTEM REHAB.	(4) CAPITAL EQUIP COSTS	(5) OTHER CAP COSTS	(6) TOTAL COSTS (1) thru (5)	(7) MONTH USER CHARGE	(8) TOTAL REVENUE	(9) CASH FLOW (8)-(6)	(10) FUND INTEREST	(11) FUND BALANCE	(12) TARGET RESERVE BALANCE	(13) FUND RATIO (11)/(6)
2010	309	1924	780	57	2344	5414	10.25	2683	-2731	28	3183	2810	1.09
2011	309	2206	885	48	157	3605	12.25	3242	-363	10	2830	2824	0.88
2012	309	2080	1070	80	50	3589	14.25	3695	106	61	2996	2748	0.79
2013	309	2285	1240	360	235	4429	16.25	4110	-319	10	2687	2871	0.68
2014	234	2331	1452	50	50	4117	16.25	4121	5	27	2719	2898	0.65
2015	149	2377	1496	52	52	4125	16.25	4134	9	54	2783	2926	0.66
2016	149	2425	1540	53	53	4220	16.58	4221	0	83	2866	2955	0.66
2017	149	2473	1587	115	55	4379	16.91	4309	-69	115	2912	2984	0.65
2018	149	2523	1634	56	56	4419	17.24	4400	-19	116	3009	3014	0.66
2019	149	2573	1683	172	58	4636	17.59	4493	-143	120	2987	3044	0.65
2020	149	2625	1734	178	60	4745	17.94	4575	-170	119	2936	3075	0.63
2021	149	2677	1786	61	61	4735	18.30	4671	-64	117	2989	3106	0.62
2022	149	2731	1839	63	63	4846	18.67	4769	-76	120	3033	3138	0.62
2023	44	2785	1895	65	65	4854	19.04	4870	15	121	3169	3171	0.62
2024	44	2841	1951	67	67	4971	19.42	4972	2	127	3298	3205	0.64
2025	44	2898	2010	69	69	5090	19.81	5077	-13	132	3417	3239	0.65
2026	0	2956	2070	71	71	5169	20.20	5184	16	137	3569	3274	0.66
2027	0	3015	2132	73	73	5294	20.61	5294	-1	143	3711	3309	0.67
2028	0	3075	2196	76	76	5423	21.02	5405	-18	148	3842	3345	0.68
2029	0	3137	2262	78	78	5555	21.44	5519	-35	154	3960	3382	0.69
2030	0	3200	2330	80	80	5690	21.87	5636	-54	158	4064	3420	0.70