

**BIGHORN DESERT VIEW WATER AGENCY  
AGENDA ITEM SUBMITTAL**

**Meeting Date:** July 22, 2008

**To:** Board of Directors

**Budgeted:** N/A

**Budgeted Amount:** N/A

**Cost:** N/A

**Funding Source:**

**From:** Marina D. West, PG

**General Counsel Approval:** N/A

**Staff Contact:**

**CEQA Compliance:** N/A

**Subject: BUDGET FOR FISCAL YEAR 2008-2009**

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**SUMMARY**

The Operating Budget for Fiscal Year 2008-2009 is attached for review and discussion at the July 22nd Board of Directors meeting.

**RECOMMENDATION**

That the Board take the following action:

1. Adopt Resolution fixing and adopting the Agency budget for the Fiscal Year 2008-2009 for the Bighorn-Desert View Water Agency.

**BACKGROUND/ANALYSIS**

At the June 16<sup>th</sup> Board of Directors meeting staff reviewed the details of the draft Operating Budget. The Operating Budget contains the following major categories: projected revenues, administrative expense, operations expense, debt expense and lease expense. A comparison of revenue versus total expenses revealed a budget deficit of approximately \$140,000 before any consideration of Capital Improvement Projects or Replacement and Refurbishment Funds. Staff reviewed available mechanisms to balance the budget such as utilizing reserves, securing a cash loan, restructuring the staff organization, cutting operating expenses and increasing charges/fees for service. The Board asked staff to focus on two areas of the budget in order to bring it back into balance for Fiscal Year 2008-2009; restructuring and increasing charges/fees.

It is important to note that staff had spent considerable time preparing the draft budget. Once the budget deficit became apparent additional time was spent assessing operating expenses and ways to balance the budget before presenting the draft results to the Board. First of all, a line by line analysis was conducted whereby actual expenses were reviewed and adjustments were made accordingly. Where savings could be realized, the budget was adjusted although many line items remained unchanged. Through this initial process, some line items went down but, not unexpectedly, other line items increased over the prior year. Nevertheless, the result is a budget that is more aligned with actual cost projections based on actual expenditures in the prior year. The format of the budget is the same as the prior fiscal year.

As part of the Board’s directive, an analysis of the current organizational structure was completed. The most apparent change in the Agency’s structure was the recent hiring of a full-time general manager, a role previously filled on a part-time basis. It became clear that due to the part-time nature of the organizations top leadership one additional managerial position was appointed to “bridge-the-gap”; to provide daily leadership to Agency staff. That gap no longer exists and the position no longer performs such a high-level managerial function. Moreover, under the current financial strain on the Agency, ultimately leading towards an adjustment to charges/fees plus the lack of aggressive capital and refurbishment goals, the organization is now open to criticism for being too top heavy, managerially. Therefore, through the restructuring exercise, staff recommends a reduction-in-force of one managerial position, Director of Operations, which will result in reducing the deficit by nearly one-half yet is not expected to have an adverse impact on customer service.

Concerning further cuts in the operations budget, although there are line items which could be cut, such as director’s fees, cell phones, education, customer communication, and cleaning services, it is the opinion of staff that doing so will begin to cut into the heart of the service capability of the Agency. Besides, cuts in these areas do not result in monetary savings but merely a redirecting of staff resources. For instance, cutting into director’s fees will result in less than timely execution of Agency business and discourages the Board from seeking education and training that ultimately benefits the Board’s oversight of critical Agency business. This should not only be a customer priority but also an example of the expectation of for future Board members as much as the current Board desires it.

Since the June 16 Board’s direction to evaluate the impact of increased charges/fees on the budget, staff has spent considerable time looking at a number of different options including projections of increased revenue from the meter replacement program, increasing basic service fee and increasing the water consumption charge. Staff calculated the effect of various percent increases, 25%, 35%, 37.5%, and 50% to the basic service fee and the consumption charge. Combined with the deficit reduction from the restructuring option, the various increases affect the budget according to the following table:

<b>Summary Table Rate Increase Options</b>			
Basic Service Fee Increase	Monthly Water Bill Increase	JV per unit rate increase	Resulting Budget Surplus
25%	\$5.00	\$1.75	\$31,014
35%	\$7.00	\$2.45	\$67,998
<b>37.50%</b>	<b>\$7.50</b>	<b>\$2.62</b>	<b>\$77,244</b>
50%	\$10.00	\$3.50	\$123,474
Water Rate Increase	Monthly Water Bill Increase (per 5 units consumed)	JV increase per unit rate	Resulting Budget Surplus
25%	\$3.75	\$1.75	\$51,446
35%	\$5.25	\$2.45	\$96,602
37.50%	\$5.62	\$2.62	\$107,867
50%	\$7.50	\$3.50	\$164,337

Staff is recommending the Board pursue the 37.5% increase to the Basic Service Fee equally \$7.50 per month (\$15.00 per billing cycle) to satisfy the projected budget deficit, which remains after the reduction-in-force, that would otherwise exist without a charge/fee increase. An adjustment to the Basic Service Fee fixes the monthly bill increase thereby eliminating any customer concern as to the variability of the water bill based on the alternate formula that increases the per unit water rate.

It is obvious from the table that the decision to increase the Basic Service Fee by \$7.50/mo. projects a revenue surplus to the budget of approximately \$77,000. When pondering the projected surplus from this increase keep in mind the following information points:

- All revenue projections are estimates, are based on projected water consumption, and predicted property values yet many expenses are actually fixed such as salary or bond payments.
- The fiscal year began July 1, 2008 yet the revenue estimates from the charge/fee are based on a one-year period (July 1 to June 30).
- The increase in charges/fees will take approximately three months to implement, therefore, offsetting a portion of the surplus revenue projection. The reduction-in-force also takes place after the beginning of the fiscal year (ie. payroll has been met)
- Staff has a number of replacement and refurbishment projects that are currently on-hold until revenue is can be generated to fund them.
- Last fiscal year staff was forced to withdraw from reserves to satisfy demand for payment of attorney fees, on both sides, of the "Kelly" case.
- Reserves that were being stored for system refurbishment, wells and pumps for instance, were insufficient to cover the expense associated with the number of wells and pumps that needed repair over the last two years.

In adopting the above stated Resolution the Board is acknowledging a budget deficit of approximately \$140,000 that will be restored though an increase in charges/fees, pursuant to Prop. 218 protocols and the restructuring of the Agency organization by reducing total staff by one managerial position, Director of Operations. These actions will result in a balanced budget.

Regarding the elimination of the position, the existing Organizational Chart was adopted by Ordinance 05O-02 on December 20, 2005 and will therefore require actions related to revising an Ordinance 08O-XX including two consecutive weeks of publication for and convening a public hearing on the matter. Thereafter the Ordinance can come back to the Board for consideration and adoption.

Lastly, the increases in charges/fees is an immediate measure to balance the budget and does not address long-term financial strategies to maintain the Agency's infrastructure (ie. reservoirs and pumps), address capital purchase programs (ie. equipment or Master Plan improvements), emergency funds or reserve policies. The Board and staff need to tackle the long-term strategy over the next six to nine months to set the direction and funding mechanisms to meet the agreed upon objectives.

#### **PRIOR RELEVANT BOARD ACTION(S)**

6/16/08 Draft Operating Budget presented to BOD