

**KINNELOA IRRIGATION DISTRICT
SPECIAL MEETING – BOARD OF DIRECTORS
1999 KINCLAIR DRIVE, PASADENA, CA 91107
MONDAY– AUGUST 13, 2012
7:30 P.M.**

AGENDA

- 1. CALL TO ORDER**
 - A. Declaration of a Quorum
 - B. Review of Agenda

- 2. DISCUSSION OF PROPOSED BUDGET FOR YEAR 2013**

- 3. ADJOURNMENT**



Memo

Date: August 8, 2012
To: Board of Directors
From: Mel Matthews
Subject: Project Financing and Rate Analysis – Proposed 2013 Budget

The District has had no project indebtedness since April 2004, when the repayment was completed on the 30-year bonds that were used to make major improvements to the east side of the system after acquisition of the water companies in that area. Since 2005, the District has completed over \$2,640,000 in projects without any external financing by making modest adjustments to our rates and using the net surplus to complete these projects. The average annual spending rate on projects has been approximately \$330,000.

Future major projects such as the proposed East-West Tank Connector Pipeline will have a significant effect on future rates regardless of whether they are financed internally through our accumulated net surplus or financed through a loan or a combination of both internal and external financing.

The purpose of this memo is to show the potential impact on rates for spending \$1,000,000 on a major project in an accelerated timeframe in order to receive the benefits of the project sooner than we would using the current practice of accumulating a surplus over multiple years.

Internal Financing

The proposed budget for 2013 yields a net surplus of approximately \$16,179 with a 3.5% increase in total revenues. Favorable results might yield as much as \$300,000 as is projected for 2012 especially if we delay certain non-critical projects. Nevertheless, a \$300,000 annual net surplus would be the maximum we could reasonably expect in the next few years with a modest annual rate increase. The current amount of the unrestricted surplus is approximately \$400,000. Therefore it will take another couple of years (2013 and 2014) to accumulate \$1,000,000 for spending on a major capital project. Using this scenario, we would be able to proceed with a project of this size in 2015. Rates would probably need to be adjusted at least 3.5% annually to produce the desired annual net surplus and/or delay smaller non-critical projects to preserve the capital surplus for the big project.

External Financing

Financing for large projects is available through CSDA and other lenders. Although I was unable to get a formal quote for a theoretical \$1,000,000 project, I expect the interest rate to be in the 5-6% range. Assuming a term of 15 years, the monthly payments would be in the \$7,700-\$8,500 range. We would have to increase our revenue approximately \$14 per customer per month on average to cover the debt service. That is equivalent to a 7% rate increase for a medium usage customer. The term of the loan could be increased to lower the monthly debt service but the total interest cost would be higher.

Combination of Internal and External Financing

We might want to use internal funds to complete the plans and specifications and prepare the bid documents for a project in one year and then borrow the funds for the actual construction once we have awarded a contract and know the precise cost of construction. This would save interest expense by reducing the amount borrowed and delaying the need for the funds until the start of construction.

Rate Considerations

The budgeted revenue for water sales reflects a 3.5% increase and is more consistent with the forecasted 2012 revenues and my expectation that there would be very little change unless weather conditions were drastically different in 2013. I based the budgeted amounts on an increase in the daily service charge from \$1.611 (\$49.00 per average month) to \$1.68 (\$51.10 per average month), an increase in the commodity charge from \$2.95 per CCF to \$3.05 per CCF and a slight decrease in the units sold to reflect possible conservation efforts of some of our customers to maintain their current monthly billing amount.

I also decided to include wholesale water revenue in this budget. This non-customer source of revenue although not assured to be available has become very predictable over several years due the availability of leased water rights at a reasonable price and the mutual benefit in selling surplus water to the City of Pasadena under a contract I negotiated in 2004 and that was renewed in 2011. Our wholesale water rate for the City of Pasadena is 83.6% of the current MWD rate and that rate is increasing annually at about 5-7%. So our net wholesale margin is protected and the City continues to benefit from the lower cost of the KID water. Although the City will purchase all the water we can deliver, we are currently limited by our maximum production capacity and other operational considerations. In the event that we need the water for our own customers we will curtail deliveries to the City and receive an even higher margin by selling water to our own customers.

The rate history is shown on the proposed budget. The last rate increase was implemented on January 1, 2011. We were able to maintain these rates in 2012 because no major projects were scheduled for 2012 and it appears that the forecasted favorable net cash flow will allow us to achieve our goal of rebuilding our reserve fund to the previously established target level.

With regard to rates for 2013 and beyond, it will be necessary to implement rate increases to maintain the current pace of doing master plan projects regardless of the financing method. I recommend that we establish a plan that would increase our overall rates at least 3.5% annually for the next five years. That increase could come from infinite combinations of the fixed daily service charge and the commodity charge. An increase in the daily service charge places a non-proportional burden on our small-usage customers. An increase in the commodity charge places a non-proportional burden on our high-usage customers. A higher daily service charge provides a more predictable increase in revenue and provides better coverage of our fixed expenses in bringing water to the property and maintaining our infrastructure. A higher commodity charge encourages water-use efficiency and provides better coverage of our variable expenses such as electricity and water treatment which are dependent on the amount of water produced and delivered to the customer.

Proposition 26 and 218 require a burden of proof on the agency if a new rate is challenged by a majority protest that rates and fees reflect the cost of providing service. I believe that our current rates and fees can be defended as well as a 3.5% scheduled increase per year for the next 5 years. I picked the 3.5% rate because it is easily defensible considering the current inflation rate and our need to generate capital improvement funds. Proposition 218 permits a multi-year rate plan consideration so we do not have to hold a public hearing every year. If an increase is not needed for any reason, the Board can vote to suspend the increase for that year.

Some agencies have chosen to add a capital improvement and/or tax line item on the bill to raise revenue for specific purposes rather than putting a greater increase on the water rate. The downside of this is that the increased revenue probably could not be used for the general purposes of the agency without raising a red flag that could lead to a future protest.

Conclusion

I intend for this memo to provide background information for the budget discussion and to provide a basis for the discussion of our master plan projects and the future rates that will allow us to continue to provide safe and reliable water service to our customers.

Kinneloa Irrigation District 2013 Budget Worksheet

Account	Account Description	2012 FYE		Proposed 2013 Budget	Variance of	Notes
		2012 Budget	Forecast as of 6/30/2012		Proposed 2012 Budget	
4000	Water Sales	1,111,000	1,159,198	1,150,000	39,000	3.5% increase in water sales revenue
4015	Wholesale Water Sales	0	157,617	150,000	150,000	Based on 75% of expected 2013 sales
4020	Service Charges	10,000	17,775	10,000	0	
4035	Interest-Reserve Fund	4,000	3,908	4,000	0	
4060	Disaster Assistance	0	2,017	0	0	
Total Income		1,125,000	1,340,516	1,314,000	189,000	
5000	Leased Water Rights	38,000	38,000	46,500	8,500	Based on leasing 155 acre-feet @ \$300 per acre-foot
5005	Electricity	99,000	101,689	105,000	6,000	Amount based on announced rate increase application
5010	Maintenance Supplies	30,000	29,436	20,000	-10,000	Reduced to reflect new category 5011 that was added
5011	Material and Labor for Install	0	12,465	10,000	10,000	New category established- 5010 reduced by this amount
5012	Safety Equipment	1,600	800	1,600	0	
5015	Operations & Maintenance Labor	160,500	149,960	155,000	-5,500	Reduced to reflect regular pay only
5016	Operations & Maintenance OT	0	9,835	10,000	10,000	New category established to track overtime pay
5020	Stand-by Compensation	7,500	7,410	7,500	0	
5022	Training/Certification	1,600	800	1,600	0	
5025	Water Treatment/Analysis	22,000	20,985	22,000	0	
5030	Maintenance Contractors	117,000	132,097	125,000	8,000	Reflects higher contractor labor rates
5034	Equipment Maintenance	6,000	6,318	10,000	4,000	Additional equipment added to this category
5035	Vehicle Maintenance	6,000	4,590	6,000	0	
5036	Fuel - All Equipment	15,000	12,768	15,000	0	
5040	Equipment Rental	500	500	500	0	
5045	Insurance-Workers Comp.	12,000	4,694	12,000	0	
5046	Insurance-Liability	22,000	17,668	22,000	0	
5048	Insurance-Property	2,500	1,943	2,500	0	
5049	Insurance-Medical	44,000	44,676	46,000	2,000	Estimated premium increase for KID contribution
6000	Engineering Services	45,000	27,490	45,000	0	
6005	Watermaster Services	12,000	11,274	12,000	0	
6015	Administrative Salary	125,500	121,931	130,000	4,500	
6016	Administrative Bonus	0	3,000	0	0	
6017	Administrative Travel	5,000	4,014	5,000	0	
6020	BofD Compensation	5,600	5,200	5,600	0	
6021	Administrative & Board Expense	2,500	1,802	2,500	0	
6022	Board of Directors Election	0	293	0	0	
6024	Customer/Public Information	4,000	2,295	3,000	-1,000	
6025	PERS - KID	14,000	13,885	15,000	1,000	KID contribution rate increased
6030	Social Security - KID	29,000	27,607	29,000	0	
6035	Office/Computer Supplies	9,000	8,320	9,000	0	
6036	Postage/Delivery	6,000	5,059	6,000	0	
6040	Professional Dues	7,500	7,653	7,500	0	
6045	Legal Services	15,000	8,913	15,000	0	
6050	Telephone	5,500	5,589	4,000	-1,500	Changed telephone service provider
6051	Mobile Telephone	2,500	2,359	2,000	-500	Changed service plan
6052	Pagers	240	234	240	0	
6053	Internet Service	1,500	1,260	1,500	0	
6059	Computer/Software Maintenance	27,000	20,059	9,000	-18,000	Billing system upgrade completed in 2012
6061	Office Equipment Maintenance	1,000	500	1,000	0	
6065	Accounting Services	7,000	6,200	7,000	0	
6070	Office & Accounting Labor	48,000	57,630	78,000	30,000	Accounting/Office Assistant position filled
6075	Outside Services	20,000	15,028	20,000	0	
6080	Capital and Administrative Fee	7,369	3,002	7,000	-369	FMWD administrative fee changed
6081	Permits/Fees	2,500	10,036	5,000	2,500	Additional fees for portable equipment from AQMD/CARB
6120	Bank Service Charges	3,000	3,084	3,600	600	Online payment fees added
Total Expenses		990,909	970,350	1,041,140	50,231	
NET REVENUES		134,091	370,166	272,860	138,769	
Other Expenditures						
1504	East-West Tank Connector	0	0	85,000	85,000	\$950,000 est. cost - Start design work/easements in 2013
1509	Wilcox Well	7,500	0	5,000	-2,500	Remove level transducer and replace 30 ft. of air line
1511	Water Treatment Plant	5,400	5,244	5,400	0	
1512	Water Meters	20,000	19,039	32,000	12,000	New meters/transponders
1513	Electrical/Electronic Equipment	25,000	574	25,000	0	
1514	Computer/Office Equipment	5,000	5,000	5,000	0	
1516	Water Company Facilities	20,000	0	12,000	-8,000	Vosburg Warehouse/East Tank/West Tank
1522	Eucalyptus Booster Station	0	0	25,000	25,000	Booster #2 (may be postponed)
1526	Vosburg Booster Station	0	0	25,000	25,000	\$350,000 est. cost - Start design work in 2013
1527	SCADA	12,000	12,000	15,000	3,000	Remove leased phone line at PCIC and add radio comm.
1530	Tools	2,400	1,760	2,400	0	
2400	Truck Installment Payment	19,881	19,881	19,881	0	
Total Other Expenditures		117,181	63,498	256,681	139,500	
NET CASH FLOW		16,910	306,669	16,179	-731	

Kinneloa Irrigation District Proposed 2013 Budget

Daily Service Charge = \$1.68 (Average Charge per Month = \$51.10)

Commodity Charge \$3.05 per CCF

Account	Account Description	2013
4000	Water Sales	1,150,000
4015	Wholesale Water Sales	150,000
4020	Service Charges	10,000
4035	Interest-Reserve Fund	4,000
Total Income		1,314,000
5000	Leased Water Rights	46,500
5005	Electricity	105,000
5010	Maintenance Supplies	20,000
5011	Material and Labor for Installs	10,000
5012	Safety Equipment	1,600
5015	Operations & Maintenance Labor	155,000
5016	Operations & Maintenance OT	10,000
5020	Stand-by Compensation	7,500
5022	Training/Certification	1,600
5025	Water Treatment/Analysis	22,000
5030	Maintenance Contractors	125,000
5034	Equipment Maintenance	10,000
5035	Vehicle Maintenance	6,000
5036	Fuel - All Equipment	15,000
5040	Equipment Rental	500
5045	Insurance-Workers Compensation	12,000
5046	Insurance-Liability	22,000
5048	Insurance-Property	2,500
5049	Insurance-Medical	46,000
6000	Engineering Services	45,000
6005	Watermaster Services	12,000
6015	Administrative Salary	130,000
6017	Administrative Travel	5,000
6020	Board of Directors Compensation	5,600
6021	Administrative & Board Expenses	2,500
6024	Customer/Public Information	3,000
6025	PERS - KID	15,000
6030	Social Security - KID	29,000
6035	Office/Computer Supplies	9,000
6036	Postage/Delivery	6,000
6040	Professional Dues	7,500
6045	Legal Services	15,000
6050	Telephone	4,000
6051	Mobile Telephone	2,000
6052	Pagers	240
6053	Internet Service	1,500
6059	Computer/Software Maintenance	9,000
6061	Office Equipment Maintenance	1,000
6065	Accounting Services	7,000
6070	Office & Accounting Labor	78,000
6075	Outside Services	20,000
6080	Capital Improvement Fee	7,000
6081	Permits/Fees	5,000
6120	Bank Service Charges	3,600
Total Expenses		1,041,140
NET REVENUES		272,860

Water Sales, Units	260,240
Rate Per Unit	\$3.05
Annual Commodity Revenue	\$793,730
Daily Service Charge	\$1.68
Annual DSC Revenue	\$356,269
Annual Water Sales	\$1,150,000
Wholesale Water Sales	\$150,000
Other Annual Revenue	\$14,000
Total Revenue	\$1,314,000
Total Expenses	\$1,041,140
Net Revenues	\$272,860
Capital Improvement Projects	\$256,681
Annual Net Cash Flow	\$16,179
Average Monthly Charge for Low Usage	\$82
Average Monthly Charge for Medium Usage	\$204
Average Monthly Charge for High Usage	\$814
Reserve Fund Balance (Beginning)*	\$641,727
Reserve Fund Balance (Year End)*	\$657,906

*Reserve fund balance includes \$250,000 set aside for possible future Eucalyptus Tunnel contamination mitigation and \$100,000 in operational working capital.

Rate History

Implementation Date	DSC Chg. (Per Average Month)	Com.Chg.
1/1/89	\$20.00	\$0.85
1/1/91	\$20.00	\$1.10
5/1/93	\$20.00	\$1.60
4/5/01	\$30.00	\$1.90
1/6/03	\$30.00	\$1.95
1/1/05	\$30.00	\$2.05
1/1/06	\$34.00	\$2.30
1/1/07	\$36.00	\$2.42
1/1/09	\$41.00	\$2.55
1/1/10	\$49.00	\$2.75
1/1/11	\$49.00	\$2.95
Proposed 1/1/13	\$51.10	\$3.05

Recommended Expenditures for Capital Improvement Projects

1504	East-West Tank Connector Pipeline	85,000	Start Design Work
1509	Wilcox Well	5,000	Replace Well Depth Line
1511	Water Treatment Plant	5,400	Upgrade Cl ₂ Analyzers and Other Improvements
1512	Water Meters	32,000	Meter Replacement Program
1513	Electrical/Electronic Equipment	25,000	Facility Electrical Projects
1514	Computer/Office Equipment	5,000	Replace Obsolete Computers and Other Equipment
1516	Facilities	12,000	Facility Improvement Projects
1522	Eucalyptus Booster Station	25,000	Refurbish Booster #2
1526	Vosburg Booster Station	25,000	Start Design Work
1527	SCADA	15,000	SCADA Improvement Projects
1530	Tools	2,400	Purchase/Replace Non-Expendable Tools
2400	Truck Installment Sale Payment	19,881	Annual Payment for Two Trucks Purchased in 2008
Total Other Expenditures		256,681	
NET CASH FLOW		16,179	