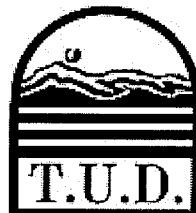


TUOLUMNE UTILITIES DISTRICT

FINAL

2010-2011

FISCAL YEAR BUDGET



**TUOLUMNE UTILITIES DISTRICT
BUDGET SUMMARY, ASSUMPTIONS, CRITERIA AND DEFINITIONS
FISCAL YEAR 2010 – 2011**

Background:

We are pleased to present this final 2010/011 fiscal year budget. Budget development is a year-long process. We begin by tracking expenses on a real-time basis and comparing budget numbers to actual expenditures. By the time we reach ½ way through the fiscal year, in December, we can typically be relatively accurate in estimating our end of year costs. In January, the following budget related actions occur:

- Engineering staff reviews the status of ongoing and long term projects and lists those projects to continue in the subsequent fiscal year.
- Engineering, operations and management staff begins development of a list of and cost estimates for new studies, projects and initiatives for the upcoming fiscal year. Lists of tools, equipment, vehicles, supplies and proposed projects are generated by field staff and transmitted to management through superintendent review.
- Our Fleet Foreman performs ongoing evaluation of the condition and cost of vehicle operation and once the cost to maintain a vehicle is expected to exceed the cost of new, the vehicle is placed on the subsequent budget for purchase.
- All staff reviews the status of revenue and expenses and estimate where we expect to be, at year end, and what operating expenses we expect to change during the next budget year. Expense and revenue figures are continuously updated by finance staff and, to ensure maximum accuracy, the most current projections are used for development of the final budget proposal.

The enclosed budget has been reviewed by the District's Fiscal Committee (twice), the Water and Wastewater Committees. The Fiscal Committee recommendation is to **Approve the Budget as Presented**. There are three main sections for presentation in this budget, Water Revenue and Expense Summary, Wastewater Revenue and Expense Summary and the Capital Improvement/Capital Purchase Schedule Summary. There is also available detailed backup data to support every line item in these summary sheets. Due to their volume, the backup sheets are not included in this packet but are available for review in the office or for copy.

Budget Criteria:

- Maximize "belt-tightening" in all aspects of the operation while not jeopardizing level or quality of service, regulatory compliance or future cost savings.
- Review each operating line item for cost savings opportunities, at the same time estimating the budget for the upcoming year based on historical experience (prior actual expenses) rather than increasing by an arbitrary percentage.
- All materials, supplies and long term service contracts are to be competitively bid pursuant to our purchasing policy.
- Only mission critical projects are to be placed on the capital improvement schedule.
- No additional loans will be secured to fund operations, purchases or new projects.

- Study projects will be pursued only if they are necessary to accomplish the objectives in the strategic plan and are intended to provide information, data or analysis necessary to make the most sound, cost effective long term decision(s).
- All projects will be grouped into functional categories tied to the 2008 Strategic Plan.
- Budget in advance for compliance with regulations and to ensure continued cooperative regulator relations.
- Establish a budget that continues our strong, positive influence in the state capitol and on regulations and other initiatives directly affecting our services.
- Establish a budget which continues our increase in public transparency, implements our Communication and Strategic Plans.
- Ensure that we maintain grant eligibility and develop initiatives and projects which pave the way for future grants for critical projects.
- Propose projects which upgrade or replace, with long term infrastructure, those areas where continued maintenance is a liability hazard, or where the cost of maintenance or temporary fixes may exceed the amortized replacement cost.

Budget Assumptions:

- No Cost of Living Increase (COLA) calculated on all wages.
- Most general operating expenses will increased slightly. Fuel costs are increased.
- Power rates from the TPPA are increasing by 3%.
- Employee medical expenses are increasing by 6.5%.
- Continuation of the contract with the Master Gardener program for assistance with the water conservation program - \$7,000.
- Water sampling fees are reduced for the year (only), but state fees and permit compliance continues to increase for all services.
- Board and staff training and travel expenses will be consistent with last fiscal year.
- 2 new State loan payments will begin this fiscal year for the pipelines to Curtis Creek and Soulsbyville.

Summary of Revenue:

Water: Operating Revenues are derived primarily from monthly base charges and water consumption charges paid by each customer. Revenues are estimated higher than the last two years due to the rate increase last year. Contributed Capital is the receipt of state loan funds as shown on row 321 of the water budget. The Contributed Capital, Connection Fees (row 332), and Capital Recovery Fees (row 334) comprise the total cash available in the water fund to construct projects and make capital purchases. Due to an operating loss of \$1.55 million (row 309), the actual cash available for capital is \$2.46 million as shown on Row 344.

Wastewater: Operating Revenues are derived from monthly charges to customers and fees charged to septic effluent haulers, who dump at the regional wastewater plant. Revenues are projected to increase slightly over last year. Revenues have increased since 2008 due to the wastewater rate increase. The

Connection Fees (row 298), plus Capital Recovery Fees (rows 301 - 304) comprise the total cash available in the wastewater fund to construct projects and make capital purchases. Due to an operating loss of \$569,866 (row 280), the actual cash available for capital is \$904,602 million as shown on Row 310.

Non-Operating revenue, shown on row 266 in the wastewater and row 305 in the water budgets, are derived primarily from property tax payments from the County. This revenue is used to offset general operating expenses, which may be an unhealthy practice due to the variability and lack of long term security of the property tax revenue.

Summary of Expenses:

The number of full-time equivalent employees has reduced from 89 in fiscal year 2009/10, to 86 as proposed in the 2010/11 budget. Due to efficiencies realized through investments in new water treatment plants, remote-read water meters and more efficient processes, we have been able to reduce staffing by 3 persons this year, resulting in an ongoing annual savings of \$115,000, inclusive of increases in medical insurance costs, merit pay and longevity pay increases.

Regulatory compliance expenses continue to increase significantly, quadrupling in the last two years to nearly \$300,000 per year in Water and \$159,000 in wastewater. Expense allocated to regulatory compliance include only direct compliance costs, **not** currently **including** the true staff cost of sampling, report writing, staffing the treatment plant more hours than previously required, operating, servicing and repairing online monitoring equipment, inspections, administrative oversight, etc.

Total operating expenses are projected to increase by \$200,000 in wastewater, and \$77,000 in water as shown on rows 245 and 262, respectively.

Capital Improvement/Capital Purchase Schedule:

This schedule lists all proposed purchases of equipment and tools, as well as any item with a life of over 1 year and costing over \$500. The schedule also includes all studies and initiatives to be undertaken, as well as infrastructure to be constructed within the fiscal year. The dollar amount budgeted reflects the estimated cost to be spent within the fiscal year and may be less than the total actual project costs, as many projects span multiple years.

As you will see, this schedule is presented in functional categories, tied to the objectives, values and strategies listed in the 2008 Strategic Plan. Two items of interest for the committees, to be highlighted for the Board, are the purchase and installation of a projector and monitor in the Board room (\$10,000) and the increase in cost of the Water Resources Consulting Services, from \$60,000 to \$87,000. A separate document describing the accomplishments in water resources for 2009 as well as the rationale for the increase is to be delivered under separate cover at the Board meeting.

DEFINITIONS

- **Allocated Expenses** –Internal Services (overhead - see definition below) costs which are allocated to each water and wastewater services based on customer count – currently 32% to wastewater and 68% to water.
- **Source of supply** –operating and capital costs associated with the source of water supply such as water purchases, water rights acquisition or defense, reservoir construction and maintenance costs, supply development costs, water conservation cost, etc.
- **Pumping** - cost associated with transporting water from the source of supply and transferring it through the ditch or piping network for treatment. Although the term “pumping” may seem inconsistent with our operations, we are using a state recommended reporting category for the purposes of standard report development, etc.
- **Treatment**- cost associated with treating water to potable water standards or treating wastewater at the Regional Wastewater Treatment Plant.
- **Transmission**-cost associated with transporting water from the point of treatment through a major trunk to major locations within the service area.
- **Distribution**-cost associated with the smaller local service distribution mains transporting water to specific locations within the service area; water storage costs are normally considered a part of the distribution cost.
- **Customer Accounts**-All customer initiated activities related to water quality, pipelines and meters. Activities in this account are usually initiated by a service order request from a customer. All other customer account work such as billing, customer service, etc. is charged to Internal Services (described below).
- **Water Operations**- Water treatment expenses for standby, on call and public health and safety related (emergency repair) activities.
- **Sewer Collection** – The cost to operate the sewer collection piping system from the customer’s residence to the wastewater treatment plant.
- **Sewer Disposal** – the cost of discharging treated effluent from the wastewater treatment plant, through irrigation or discharge into Woods Creek through our NPDES permit.
- **Regulatory Compliance**-Federal & State EPA required reports, test and studies. Please note that only certain, very specific costs have been historically charged to this account, resulting in the low budgeted amounts. In the future, **all costs** associated with regulatory compliance with all water and wastewater permits, state mandates, etc will be charged to this account, with a commensurate reduction in the amounts charged to treatment, transmission and distribution, and/or water operations.
- **Internal Service Funds**-Administrative expenses of the District which are not specifically identified with the Water or Sewer Funds and/or operating expenses that are not specifically identified with the Water or Sewer Funds or share common assets. The internal service funds consist of the following departments:
 - District General/Board of Directors
 - Non-departmental Expenses
 - General Managers office
 - Engineering Department
 - Accounting Department/Purchasing/Warehouse and Meter Reading

(Revenues) Expenses in these departments are normally allocated based on the Water and

Sewer customer count.

- ***Non-Operating (Revenue) Expenses***- consist of revenues and expenses that do not reoccur on a routine basis and are not connected to our normal business activity of providing water and sewer services. Examples are interest income and property taxes.

**TUOLUMNE UTILITIES DISTRICT
WATER FUNDS
ADOPTED BUDGET SUMMARY WORKSHEET 2010-2011**

		2008-2009	2009-2010	2011
				ADOPTED
ACCOUNT DESCRIPTION		BUDGET 2008-2009	BUDGET 2009-2010	BUDGET 2010-2011
OPERATING REVENUES:				
	TOTAL OPERATING REVENUES	(6,336,639.58)	(6,777,761.22)	(6,979,551.78)
SOURCE OF SUPPLY:				
	TOTAL SOURCE OF SUPPLY	573,746.29	265,721.73	263,365.58
PUMPING:				
	TOTAL PUMPING EXPENSES	617,561.15	280,112.33	313,900.25
TREATMENT:				
	TOTAL TREATMENT EXPENSES	800,304.61	606,007.57	616,575.46
TRANS/DISTRIBUTION:				
	TOTAL TRANSMISSION/DISTRIBUTION EXPENSES	943,035.60	591,311.48	613,567.23
CUSTOMER ACCOUNTS:				
	TOTAL CUSTOMER ACCOUNT EXPENSES	333,852.51	171,669.63	167,736.57
MISC OPERATIONS:				
	TOTAL MISC OPERATION EXPENSES	420,168.81	581,352.97	442,356.82
REGULATORY COMPLIANCE				
	TOTAL REGULATORY COMPLIANCE EXPENSES	58,679.47	216,020.61	286,732.77
ALLOCATED EXPENSES:				
	TOTAL ALLOCATED EXPENSES	5,251,342.72	5,874,924.01	5,959,663.70
TOTAL OPERATING EXPENSES		8,998,691.16	8,587,120.33	8,663,898.39
NET OPERATING (INCOME) LOSS		2,662,051.58	1,809,359.11	1,684,346.61
CASH NET OPERATING (INCOME) LOSS		2,662,051.58	1,809,359.11	1,684,346.61
DEBT SERVICE PAYMENTS:				
	TOTAL DEBT SERVICE PAYMENTS	892,939.82	965,024.09	990,580.99
DEBT SERVICE REVENUES:				
con-000-625-100	SURCHARGES	(580,000.00)	(269,585.90)	(538,580.71)
	TOTAL DEBT SERVICE REVENUES	(580,000.00)	(269,585.90)	(538,580.71)
TOTAL NET DEBT SERVICE (REVENUE) EXPENSE		312,939.82	695,438.19	452,000.28
NON-OPERATING (REV) EXP:				
	TOTAL NON-OPERATING (REVENUES) EXPENSES	(1,246,401.42)	(677,315.09)	(582,840.26)
NET CASH FLOW (INCOME) DEFICIT BEFORE MAJOR PROJECTS REVENUES		1,728,589.98	1,827,482.21	1,553,506.63
PROJECT RELATED REVENUES:				
CONTRIBUTED CAPITAL:				
	NET CONTRIBUTIONS/ LOAN PROCEEDS	-	(2,227,030.00)	(2,434,480.00)
PROJECT RELATED REVENUES				
CONNECTION FEES:				
	TOTAL CONNECTION FEES	(116,050.00)	(356,400.37)	(67,120.00)
CONS-000-414-100	CAPITAL RECOVERY	(49,250.00)	(1,244,162.70)	(1,504,721.80)
	CONNECTION FEES METERS			(7,800.00)
	PROJECT RELATED REVENUES IN TOTAL	(165,300.00)	(3,827,593.07)	(4,014,121.80)
	OTHER SURCHARGES		(122,528.51)	
CASH (INCREASE) DECREASE BEFORE PROJECTS EXPENSES		1,563,289.98	(2,122,639.37)	(2,460,615.17)
DEPRECIATION EXPENSE 2008-2009				1,483,574.37
CAPITAL RECOVERY RATIO				1.01

**TUOLUMNE UTILITIES DISTRICT
WASTEWATER FUNDS
ADOPTED BUDGET SUMMARY WORKSHEET FOR 2010-2011**

	2008-2009	2009-2010	2010-2011
			ADOPTED
	BUDGET	BUDGET	BUDGET
OPERATING REVENUES:	2008-2009	2009-2010	2010-2011
TOTAL OPERATING REVENUES	(2,517,079.04)	(3,017,360.74)	(3,089,836.13)
OPERATING EXPENSES:			
SEWER COLLECTION			
TOTAL SEWER COLLECTIONS	739,131.08	474,226.14	446,745.43
SEWER TREATMENT			
TOTAL SEWER TREATMENT	523,987.03	360,347.39	378,060.15
SEWER DISPOSAL			
TOTAL SEWER DISPOSAL	173,725.77	131,399.68	123,095.76
REGULATORY COMPLIANCE			
TOTAL REGULATORY COMPLIANCE	229,333.01	67,942.16	159,093.28
CUSTOMER ACCOUNTS			
TOTAL CUSTOMER ACCOUNTS	29,065.63	41,237.80	45,715.64
SEWER OPERATIONS			
TOTAL OTHER OPERATIONS EXPENSES	650.00	27,610.00	69,227.72
TOTAL ALLOCATED EXPENSES & BENEFITS	2,450,831.99	2,451,257.49	2,522,242.95
TOTAL OPERATING EXPENSES	4,146,724.51	3,554,020.66	3,744,180.93
NET OPERATING (INCOME) LOSS	1,629,645.47	536,659.92	654,344.80
<i>add back non-cash charge for depreciation</i>	-	-	-
CASH NET OPERATING (INCOME) LOSS	1,629,645.47	536,659.92	654,344.80
NON-OPERATING			
TOTAL NON-OPERATING (REVENUE) EXPENSE	(372,655.23)	(332,219.91)	(245,096.07)
Debt Service Payments:			
TOTAL DEBT SERVICE	213,762.48	242,051.25	243,617.24
PROPERTY TAX ASSESSMENT	(82,500.00)	(77,583.28)	(83,000.00)
DEBT SERVICE SHORTFALL	131,262.48	164,467.97	160,617.24
NET CASH FLOW (INCOME) DEFICIT			
BEFORE MAJOR PROJECTS REVENUES	1,388,252.72	(167,751.94)	569,865.97
PROJECT RELATED REVENUES:			
CONNECTION FEES:			
TOTAL CONNECTION FEES	(73,720.00)	(261,934.18)	(89,000.00)

**TUOLUMNE UTILITIES DISTRICT
WASTEWATER FUNDS
ADOPTED BUDGET SUMMARY WORKSHEET FOR 2010-2011**

	2008-2009	2009-2010	2010-2011
			ADOPTED
	BUDGET	BUDGET	BUDGET
OPERATING REVENUES:	2008-2009	2009-2010	2010-2011
<i>ALLOCATION OF SERVICE CHARGES (18%)</i>			
CAPITAL RECOVERY/COLLECTION	(759,427.59)	(732,159.92)	(822,021.60)
CAPITAL RECOVERY/TRANSMISSION	(15,393.80)	(14,523.44)	(19,360.68)
CAPITAL RECOVERY/TREATMENT	(323,269.85)	(323,073.93)	(406,574.32)
CAPITAL RECOVERY/OUTFALL	(96,467.83)	(98,715.52)	(137,511.41)
TOTAL ALLOCATED SERVICE CHARGES	(1,194,559.07)	(1,168,472.81)	(1,385,468.01)
PROJECT RELATED REVENUES	(1,268,279.07)	(1,430,406.99)	(1,474,468.01)
CASH (INCREASE) DECREASE BEFORE PROJECT EXPENSES	119,973.65	(1,598,158.93)	(904,602.04)
DEPRECIATION EXPENSE FOR 2008-2009 WASTEWATER			777,844.99
CAPITAL RECOVERY REVENUE RATIO			1,385,468.01 1.78