

BROWNS VALLEY IRRIGATION DISTRICT

FINANCIAL PLAN AND WATER RATE STUDY

January 26, 2012

Introduction and Project Overview

This document and study establish a process that will ultimately set the ceiling on water rate increases over the next 1 to 3 years. It does not actually set the water rate but rather sets a maximum possible increase for each of the next 3 irrigation seasons. As each year's actual budget is finalized, water rates may or may not be increased as circumstances dictate.

Summary of Water Rate Study

All of the Water Tolls generate less than 40% of the annual revenue for the District, yet are the only source of revenue that can be adjusted to account for the affects of inflation on the District's expenses. In addition, because the Water Tolls are a small part of the revenue stream, a larger than inflationary rate of increase is required to "keep up" with the rate of inflation (with inflation at 4%, a 10% increase in Water Rates is needed just to stay even, assuming water tolls are 40% of total revenue). The bar chart (Figure 1) on the next page depicts the extent that the water tolls have been subsidized by the District both in the past and going forward. Without these non-operational revenues (primarily hydroelectric generation) the District's water rates would be dramatically higher (see the Income pie charts on page 5).

That said, the Board of Directors has directed this Water Rate Study to only consider a **4% increase in water rates**. While this water rate increase will not create a balanced budget, it will slow the expenditures from reserves. Also, there are a couple of extraordinary expenses in this year's budget that preclude the budget from balancing. First of all, the General Obligation Bond for Collins Lake will be paid off this year (a \$100,000 additional expense). Along with this Bond payoff comes the end of the property tax assessment in the spring of 2013. Secondly, we will be spending half-a-million dollars on the grant funded Dry Creek Recapture Project this year with the grant funding all but 10% (\$50,000) of this year's costs. Both of these extraordinary expense items will draw down the District's reserves.

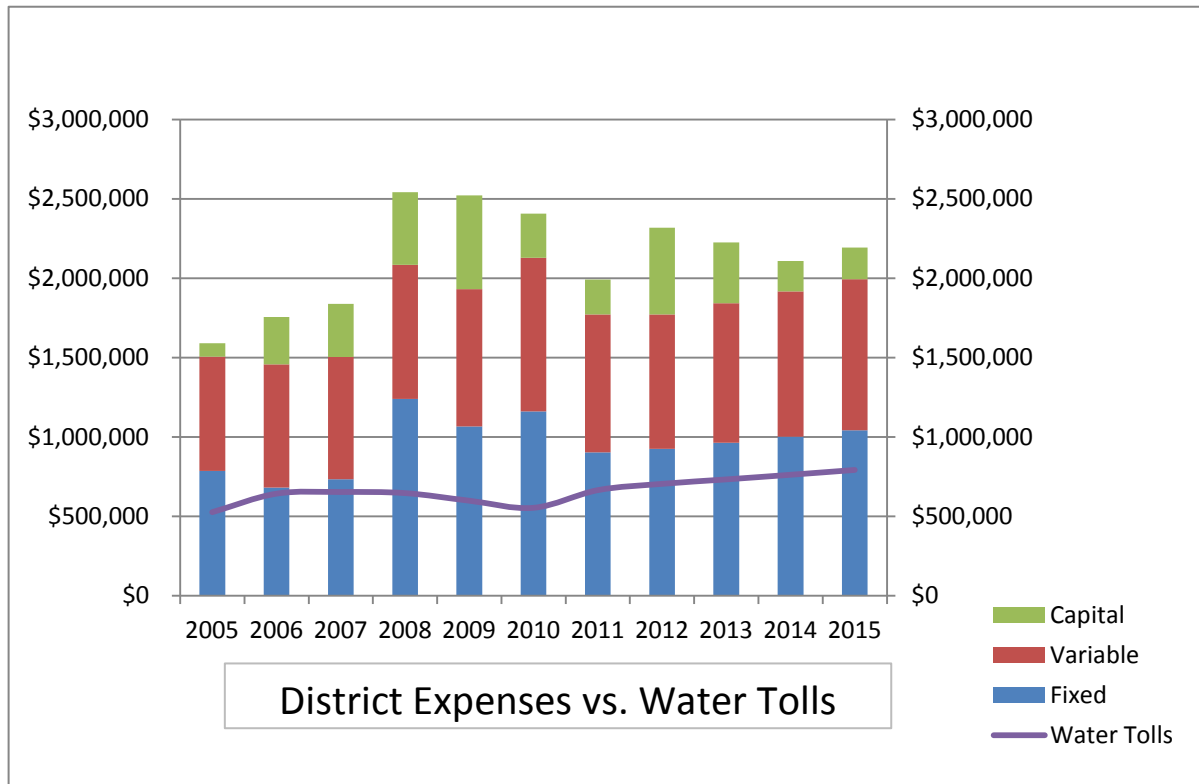


Figure 1

Three-Year Financial Plan Model

Actual revenues and expenses for 2011; Rev. \$1,805,800 Exp. \$1,990,700
 Draft Budgeted revenues and expenses for 2012; Rev. \$2,172,300 Exp. \$2,317,400
 2012 beginning of year balances total \$1,758,960

Basic assumptions

- General inflation ~ 4.0%
- Interest earnings ~ 1.5%
- District growth rate ~ 0.05%

Financial Plan Details – Exhibit 1

Estimated revenues and expenses for 2012 through 2014 **Exhibit 1**

Administrative fund revenues include:

- Annual Service Charge
- Property Taxes (general obligation bond)
- Collins Lake Recreation lease
- Interest income

Operating fund revenues include:

- Water sales (Per unit and Acre Foot rates)
- Power sales
- PG&E contracts

Administration expenses

Operating and maintenances expenses

Debt service and property tax issues – **Exhibit 2**

Capital fund expenditures

- Vehicles and equipment – 0 vehicles in 2012, 1 vehicle each year thereafter
- Peoria/Ellis pipeline project - \$150,000 per year, plus inflation (**Not Included**) (**Needs to be funded through Water Transfer revenue**)
- Dry Creek recapture project - \$1 million (90% grant funded) in 2012 and 2013

(Will require reserves to be completely funded)

- Spring Valley Project – Not included in financial plan analyses

Capital fund revenues

- Project Pipeline income (capacity charges)
- Transfer from operating fund
- Grant income

Financial plan summary

Annual water rate increases – Estimated at 4% per year for 3 years

Water Rates

Current water rates

- Annual administrative fee = \$150.00
- Water delivery charges = \$15.00 per AF or \$85.00 per Unit
- Redhill East Maintenance Charge = \$105.00

Proposed water rates – **Exhibit 3**

- Annual service charge = \$156.00
- Water delivery charges = \$15.60 per AF or \$88.40 per Unit
- Redhill East Maintenance Charge = \$110.00

Next Steps

Board meeting with presentation of report/recommendations – January 26

Mail public notices for rate hearing – January 27

Conduct water rate hearing and adopt new rates – (on or after) March 15

Exhibit 1
 Browns Valley Irrigation District
 Three-Year Financial Plan (Income)

	2011	2012	2013	2014
<u>Estimated Annual Rate Increases*</u>		4%	4%	4%
Administrative Income				
<i>*Administration Charge</i>	\$190,200	\$197,800	\$205,710	\$213,940
Accord Conjunctive Use	\$64,257	\$9,200	\$9,660	\$9,660
Standby Charges	\$5,200	\$5,200	\$5,200	\$5,200
Refunds	\$29,288	\$29,300	\$29,300	\$29,300
Tax Revenue	\$191,819	\$194,700	\$98,810	\$0
Rents	\$9,225	\$9,600	\$9,600	\$9,600
Collins Lake Rec. Lease	\$56,199	\$57,000	\$57,850	\$58,720
Interest Income	\$26,382	\$26,800	\$25,400	\$26,800
Miscellaneous Income	\$1,131	\$0	\$0	\$0
Total Administrative Income >	\$573,700	\$529,600	\$441,530	\$353,220
Operational Income				
<i>*Water Sales- In District, Summer</i>	\$473,632	\$495,500	\$515,320	\$535,930
Water Sales- Out of District	\$7,525	\$7,500	\$8,140	\$8,470
Power Sales	\$238,689	\$200,000	\$250,000	\$250,000
PG&E Water Use Contract	\$413,575	\$439,900	\$472,100	\$507,500
Total Operational Income >	\$1,133,421	\$1,142,900	\$1,245,560	\$1,301,900
Capital Income				
Sale of District Assets	\$3,500	\$5,500	\$3,500	\$3,700
Project Pipeline Income	\$52,217	\$41,800	\$39,000	\$39,000
Spring Valley Project	\$42,927	\$2,500	\$2,500	\$2,500
Grant Income	\$0	\$450,000	\$400,000	\$0
Total Capital Income >	\$98,644	\$499,800	\$445,000	\$45,200
Total Income >	\$1,805,765	\$2,172,300	\$2,132,090	\$1,700,320

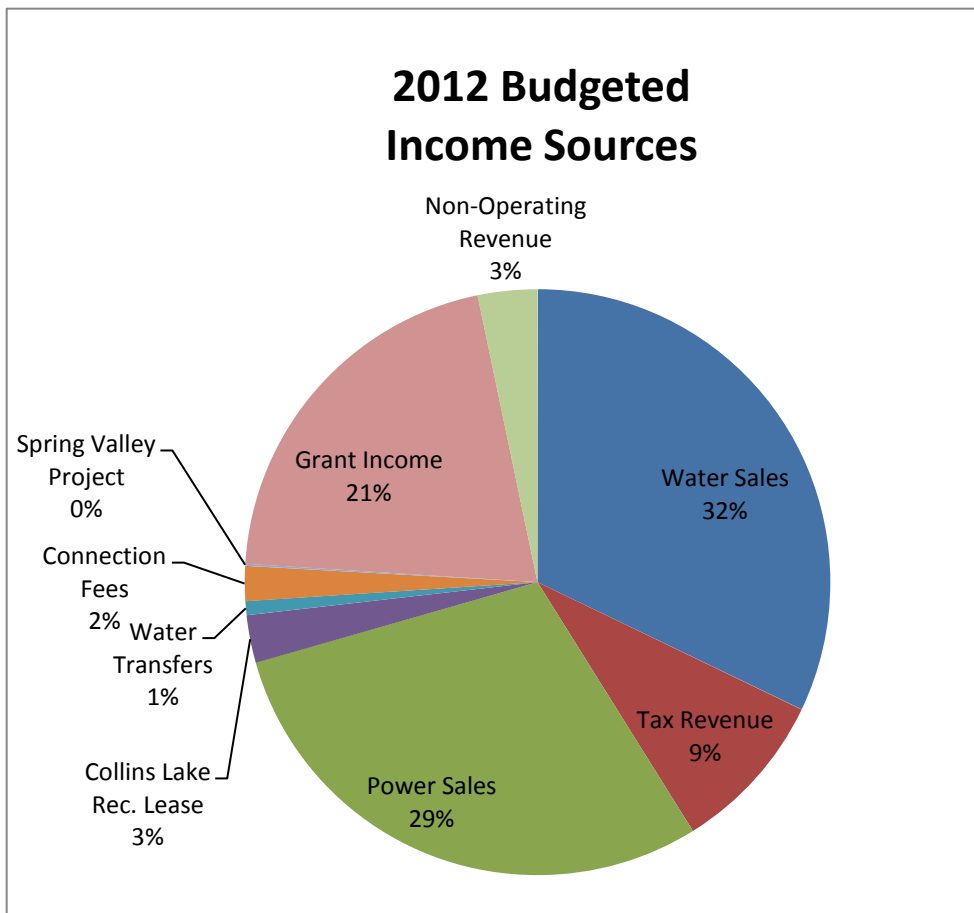
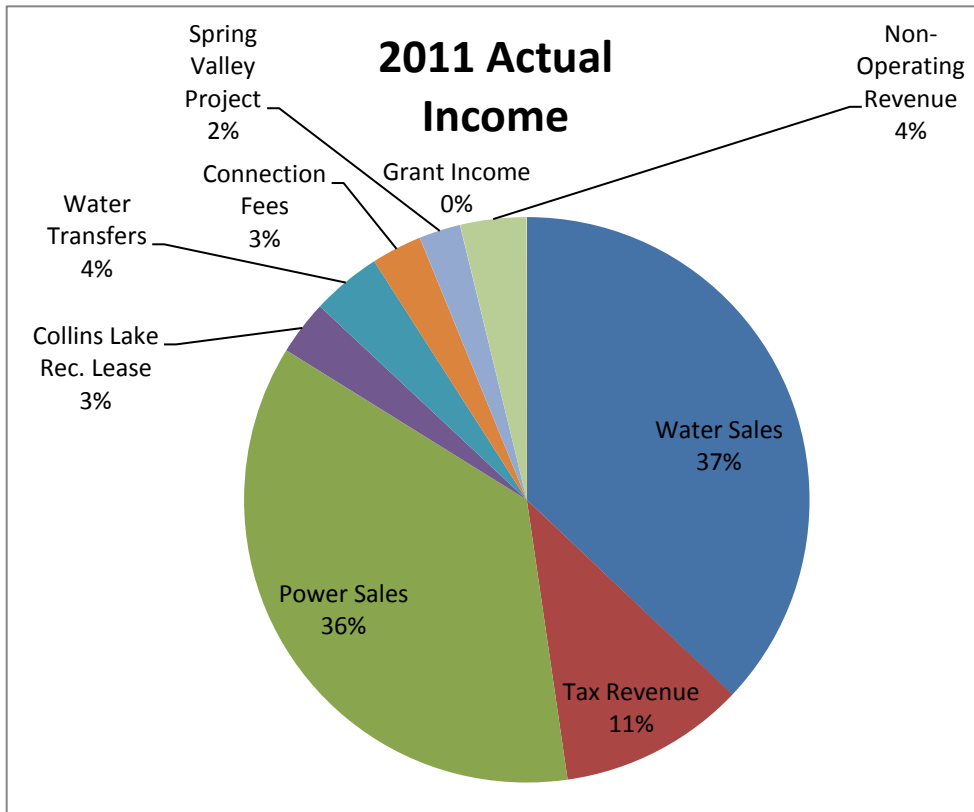
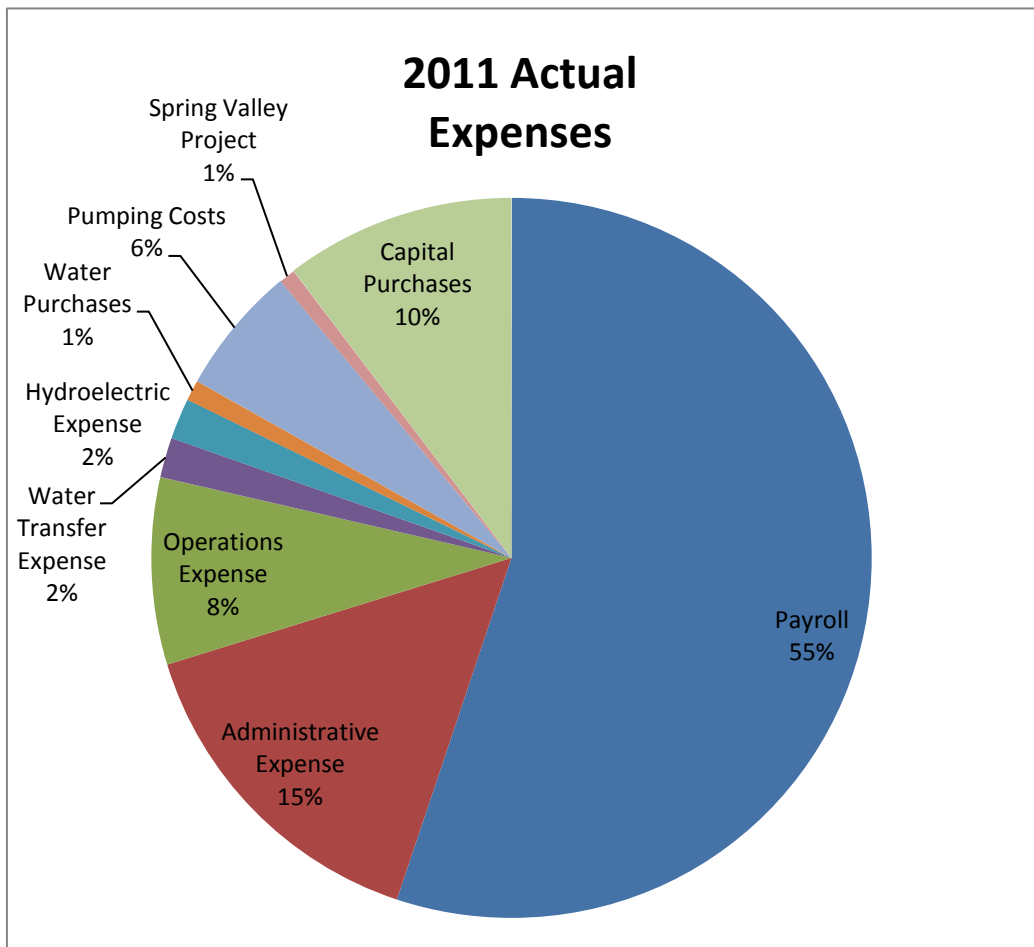


Exhibit 1
Browns Valley Irrigation District
Three-Year Financial Plan (Expenses)

	2011	2012	2013	2014
Administrative Expenses				
Administrative Payroll	\$238,761	\$227,100	\$236,200	\$245,650
Payroll Burden	\$136,957	\$130,300	\$135,500	\$140,920
Misc. Employee Expense	\$10,321	\$10,600	\$11,020	\$11,460
Insurance (all)	\$64,386	\$65,700	\$68,330	\$71,060
Maint.- Shop & Office	\$15,099	\$15,400	\$16,020	\$16,660
Utilities- Shop & Office	\$12,566	\$12,800	\$13,310	\$13,840
Office Expense	\$17,085	\$17,400	\$18,100	\$18,820
Fees- Legal & Accounting	\$82,199	\$41,000	\$42,640	\$44,350
Fees- Directors	\$30,000	\$30,000	\$30,000	\$30,000
Fees- Consulting	\$16,815	\$17,200	\$17,890	\$18,610
District Dues & Fees	\$55,128	\$57,900	\$60,220	\$62,630
Annexation/LAFCO	\$306	\$1,400	\$1,460	\$1,520
Taxes	\$125	\$100	\$130	\$130
Water Sales out of Dist. Exp	\$35,428	\$4,400	\$4,580	\$4,760
Delta Issues	\$6,755	\$6,800	\$7,070	\$7,350
Long Term Debt	\$5,500	\$105,500	\$0	\$0
Total Administrative Expenses >	\$727,431	\$743,600	\$662,470	\$687,760
Operational Expenses				
Operational Payroll	\$456,509	\$441,800	\$459,480	\$477,860
Payroll Burden	\$261,861	\$253,400	\$263,540	\$274,080
Maint.- Equipment	\$14,551	\$9,600	\$9,980	\$10,380
Maint.- Pumps	\$5,440	\$1,700	\$1,770	\$1,840
Maint.- Trucks	\$12,907	\$13,200	\$13,730	\$14,280
Hydro Expense	\$36,426	\$41,900	\$43,576	\$45,320
Distribution Maint.	\$72,273	\$73,700	\$76,650	\$79,720
Utilities- Electric Pumps	\$109,285	\$114,700	\$119,290	\$124,060
Supplies- Fuel & Oil	\$55,126	\$57,900	\$60,220	\$62,630
Supplies- Small Tools	\$303	\$1,500	\$1,560	\$1,620
Radio Expense	\$623	\$600	\$620	\$640
Water Purchases	\$18,335	\$18,300	\$19,030	\$19,790
Total Operational Expenses >	\$1,043,639	\$1,028,300	\$1,069,446	\$1,112,220

**Exhibit 1
Browns Valley Irrigation District
Three-Year Financial Plan (Expenses)**

	2011	2012	2013	2014
Capital Purchase				
Capital Purchases	\$0	\$500	\$18,700	\$19,450
Ellis Pipeline	\$0	\$0	\$0	\$0
Tennessee Creek Hydro	\$9,134	\$20,000	\$50,000	\$75,000
Redhill East Upgrade	\$38,039	\$5,000	\$0	\$0
O’Brein Pipeline	\$12,555	\$0	\$0	\$0
Replace Radio System	\$0	\$20,000	\$0	\$0
Spring Valley Project	\$14,369	\$0	\$0	\$0
Dry Creek Recapture	\$145,522	\$500,000	\$200,000	\$0
Total Capital Expenses >	\$219,619	\$545,500	\$268,700	\$94,450
Total Expenses >	\$1,990,689	\$2,302,500	\$2,000,616	\$1,894,430



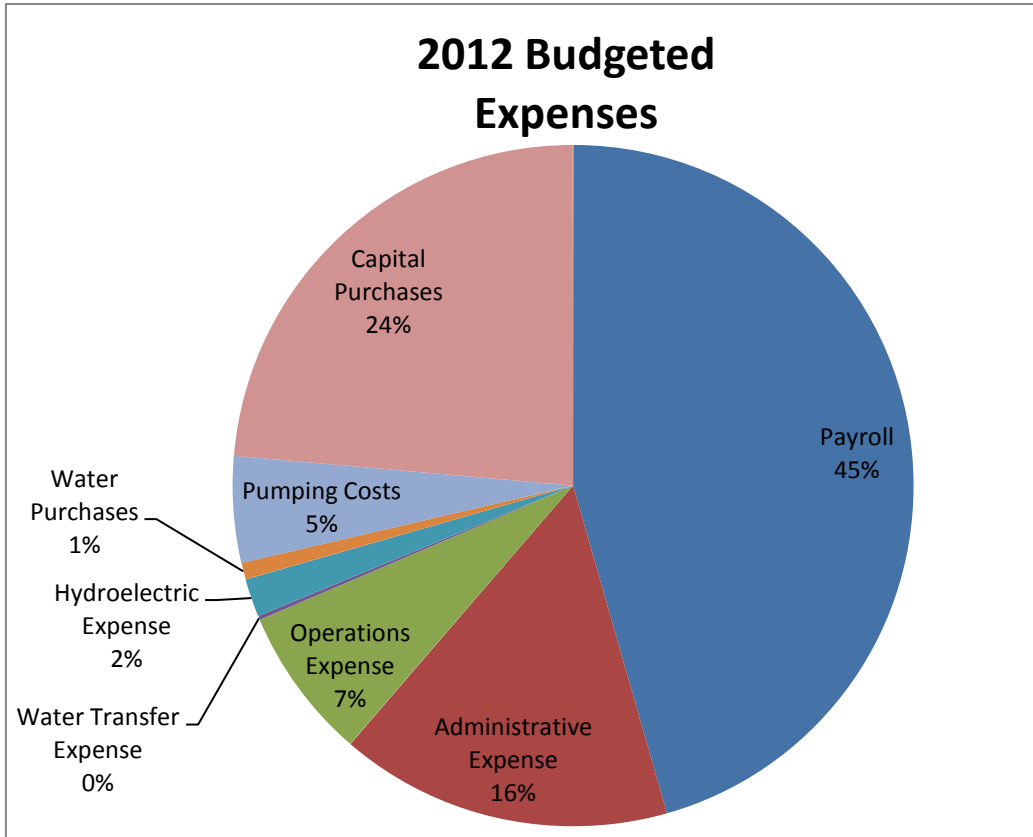


Exhibit 2
Browns Valley Irrigation District
Debt Service Obligations

	2011	2012	2013	2014
General Obligation Bond				
Interest Payment	\$5,500	\$5,500	-	-
Principal Payment	-	\$100,000	-	-
Total Annual Payment	\$5,500	\$105,500	-	-
Remaining Balance	\$100,000	-	-	-
Total Debt Service	\$5,500	\$105,500	-	-
Debt Service Payment Funding Sources				
Property Tax Revenue	\$191,820	\$194,700	\$97,350	-
Net Available for Operations	\$186,320	\$89,200	\$97,350	-

**Exhibit 3
Browns Valley Irrigation District
2012 Water Rate Calculations**

Annual Service Charge			
Administrative Expenses		\$743,600	
Number of Accounts		1,268	
Annual Service Charge		\$156.00	
Change from 2011 Admin. Fee		\$6.00	4.0%
Income from Admin Charge		\$197,800	
Water Delivery Charges			
Operating and Maint. Expenses		\$1,028,300	
Capital Program Expense		\$545,500	
Total Operating & Capital Expense		\$1,573,600	
Annual Water Sales (AF)		16,000	
Annual Water Sales (Unit)		2,911	
Redhill East Water Users		35	
Water Delivery Charges	per Acre Foot >	\$15.60	
	Per Unit>	\$88.40	
	Redhill East Maintenance Charge >	\$110.00	
Change from 2011 Charges	Acre Foot >	\$0.60	4.0%
	Unit >	\$3.40	4.0%
	Redhill East Maintenance Charge >	\$5.00	4.76%
Income from Water Sales	Acre Foot >	\$249,600	
	Unit >	\$257,330	
	Total >	\$506,930	
Overall Rate Increase (for a One-Unit user) >			4.0%