



Budget Report for Fiscal 2019



Board of Directors – 2018



Russ Martin, Vice President



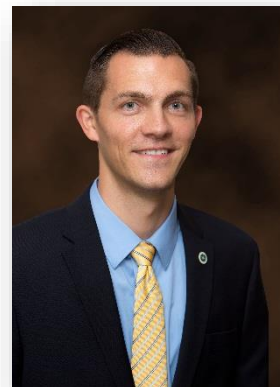
Randy Duncan, President



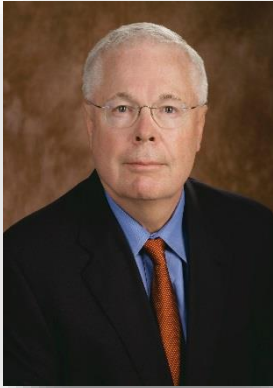
Nancy Wright, Director



Jeff Bowman, Director



Ivan Sewell, Director



*Arden Wallum,
General Manager*

Staff Directors

Director of Operations and Engineering Danny Friend

Director of Administrative Services Matt McCue

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Mission Statement

Mission Springs Water District (the “District”) has one simple mission: Provide, protect, preserve our most valuable resource ... water.

History

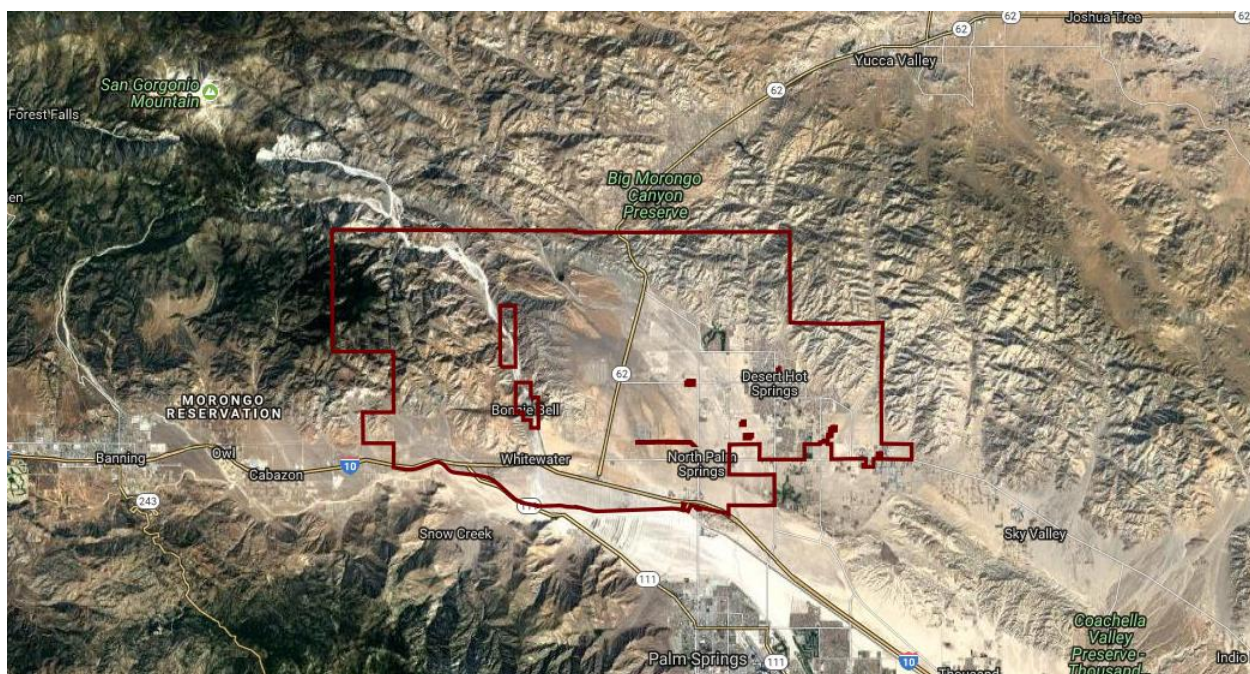
In 1953 the Desert Hot Springs County Water District was established by a vote of the residents of 246 to 9. The District began with about 100,000 feet of pipelines, five water wells and two reservoirs. It covered one square mile.

The District expanded rapidly. It absorbed parts of the Coachella Valley County Water District, the West Palm Springs Village and San Geronio Mutual Water Company systems, and the Dos Palmas Mutual Water Company.

For over 65 years, MSWD has been managing groundwater through conservation, groundwater protection projects and general stewardship of this award-winning resource.

Service Area

Today, the District includes more than 1.25 million feet of pipelines, 14 water wells and 24 reservoirs, serving over 40,000 people in an area of about 135 square miles.



Governance

MSWD is governed by a five-member, publicly elected Board of Directors. Directors are elected concurrent with the general elections every even-numbered year. Director's terms are four-years. The election of directors alternates between three seats and two seats, respectively, every two years.

Water supply

The District's sole source of supply for its 13,100 water accounts is Groundwater, mostly from the Mission Creek sub-basin. The distribution system includes three separate and distinct water supply and distribution systems with the largest of the three serving the greater Desert Hot Springs area.

Sewer Services

The District currently serves 9,100 sewer connections. Wastewater is treated at the Horton Wastewater Treatment Plant (HWWTP), and Desert Crest Treatment Plant (DC). The District treats about 2 million gallons per day prior to discharging effluent in an environmentally sustainable manner.

The District is currently in the planning and design stages of a new West Valley Water Reclamation Facility. This facility will be the District's largest capital project in the coming years and serve as the long-term central wastewater treatment and reclamation facility for the region.

Budgetary Process

The District's budget is prepared on an accrual basis as is its annual financial statements. A zero-base approach is used and estimates are made annually based upon existing operating conditions, experience of the professional staff and organizational strategic planning.

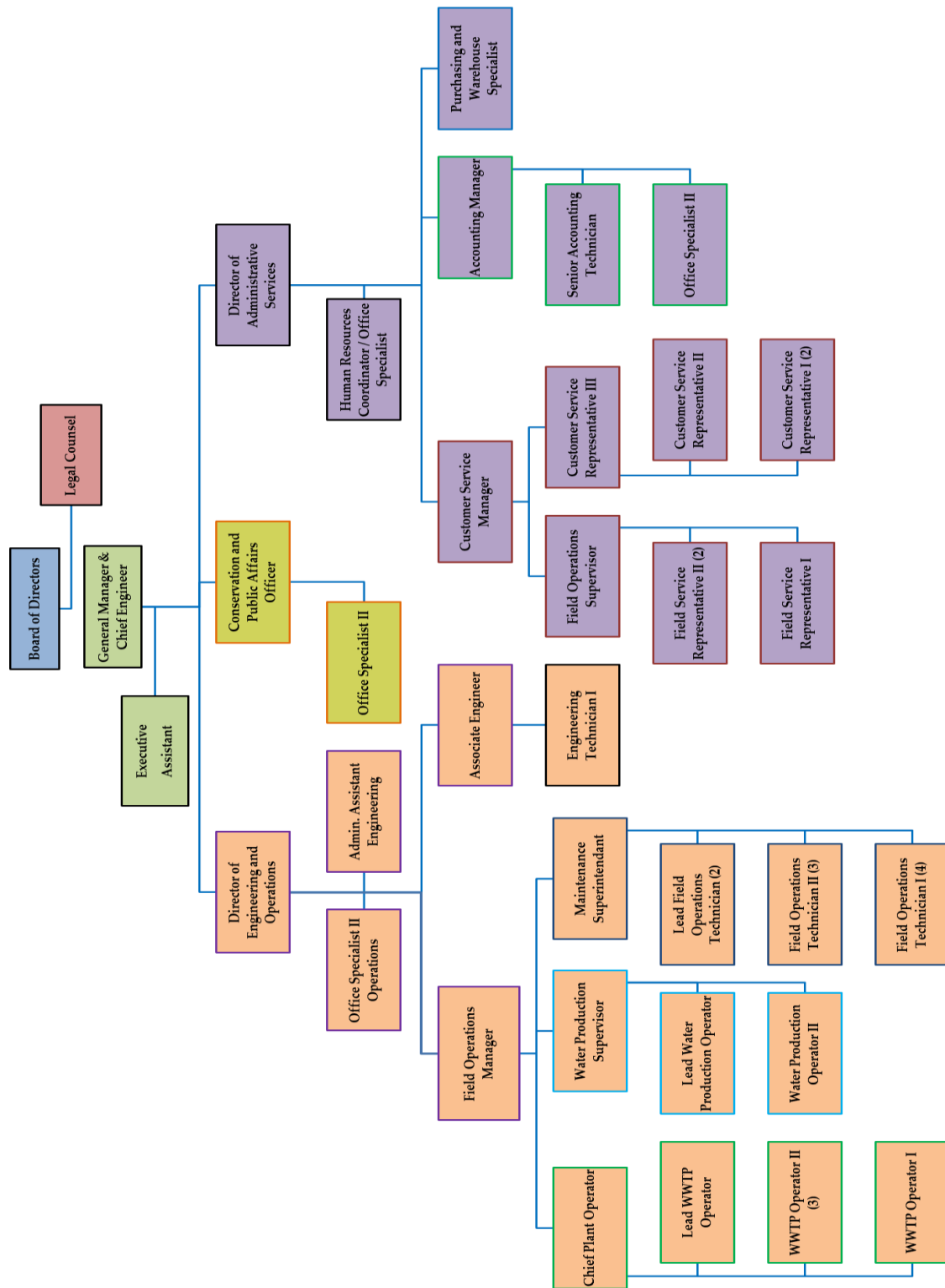
The Board approves the annual budget by June 30 each year for the coming fiscal year as outlined in the California Water Code. Actual operating results as compared to budgetary projections are reported to the Board on a monthly basis. In January of each year the budget is reviewed and, if necessary, adjusted for the remainder of the fiscal year.

Organizational Structure

On July 1, 2016 the District began a reorganization process. The organizational structure was adjusted to meet current operational and fiscal needs as represented by the organizational chart on the following page. This effort is ongoing and includes positional/staffing changes, changes in corporate culture, greater integration of mission, vision and values of the District, a customer experience overhaul and streamlining of policies and procedures. All the aforementioned changes require budgetary adjustments to accomplish. These adjustments are reflected in the current budget.

Organizational Chart

See Page 4



MISSION SPRINGS WATER DISTRICT	
PROPOSED CLASSIFICATION PLAN 2018-2019	
	Funded
	FTEs
<u>EXECUTIVE</u>	5
<u>ADMINISTRATION</u>	2
Accounting	3
Customer Service	5
Field Service	4
Purchasing and Warehouse Specialist	1
<u>ENGINEERING & OPERATIONS</u>	4
Engineering	2
Construction & Maint.	10
Water Production	3
Waste Water Treatment	6
TOTAL BUDGETED FTEs	45

Capital Program

For financial reporting purposes, a capital item is defined as an individual item with a cost of at least \$10,000 and an estimated useful life of more than one year. Each year as part of the budgetary process, the District's staff contemplates capital needs for the coming fiscal year in conjunction with any capital plans that are in place. These annual analyses are based on facts known at the time of the preparation of the budget. The District's capital items include water infrastructure, sewer infrastructure, facilities, equipment and fleet.

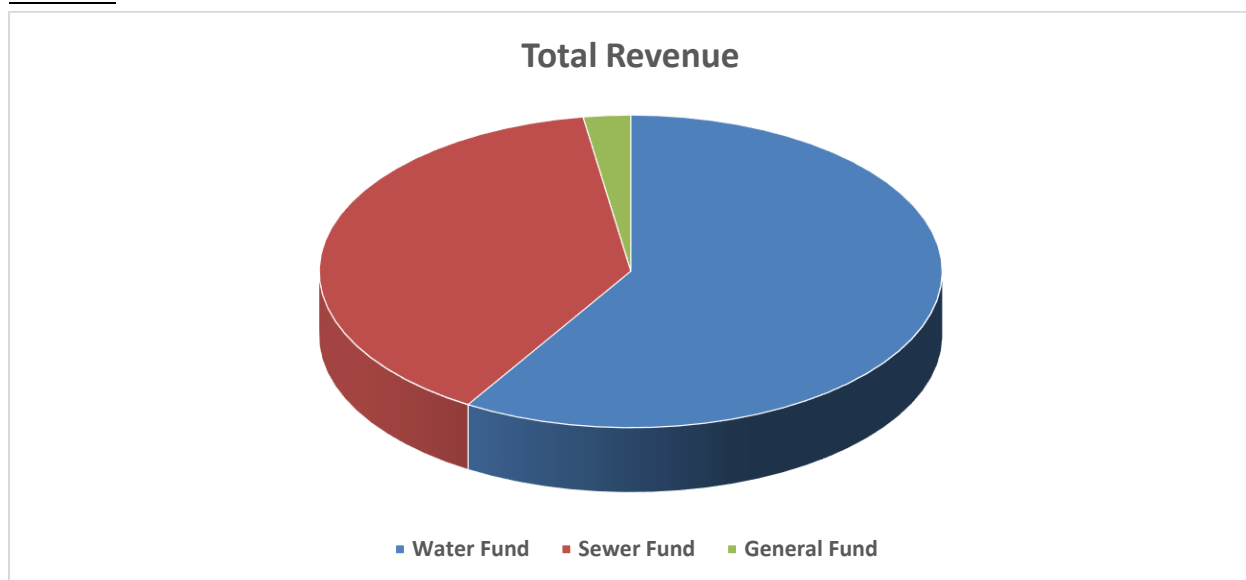
Debt

The District has approximately \$10 million in outstanding debt. Most of this debt is related to the Groundwater Protection Program which has been expanding the District's sewer collection system and converting septic systems in the area for over 17 years. This debt is secured by assessment districts passed by local voters and the District uses collections from those assessments to service these debt payments.

Treasury

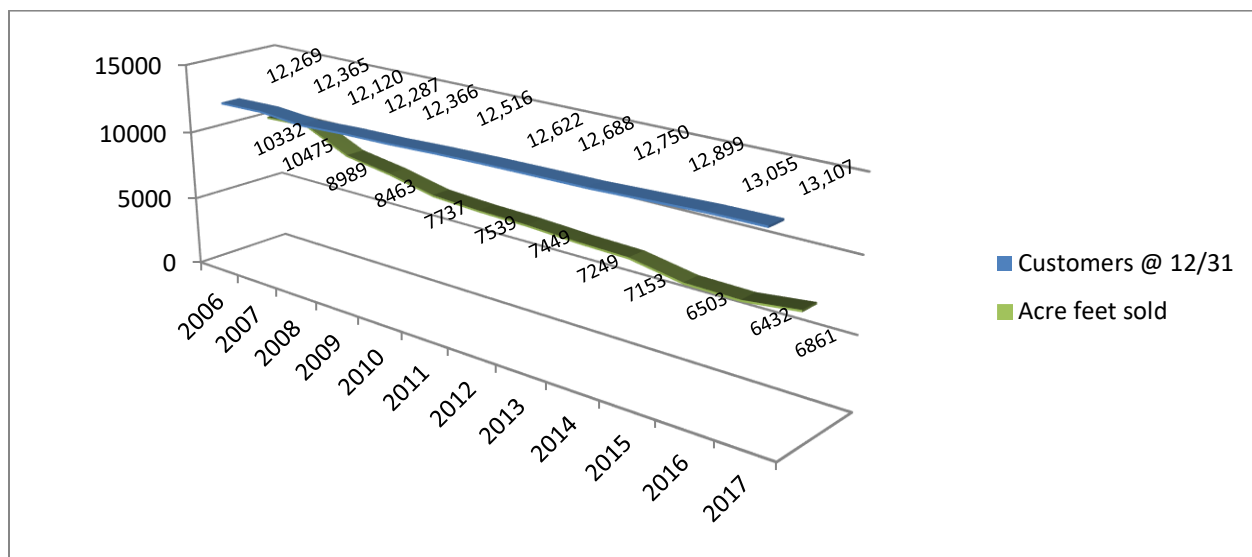
The District recently converted its treasury holdings to CalTrust. Cal Trust has provided significantly better total investment returns for the District since joining in 2017. While complying with California Government Code 53601 and 53605, CalTrust seeks to attain as high a level of current income as is consistent with preservation of principal and aligned with the public agency funds guidepost of Safety, Liquidity, and Yield. The District holds cash reserves for various purposes the largest of which is a Capital Reserve Fund of approximately \$24 million as of March 31, 2018.

Revenue

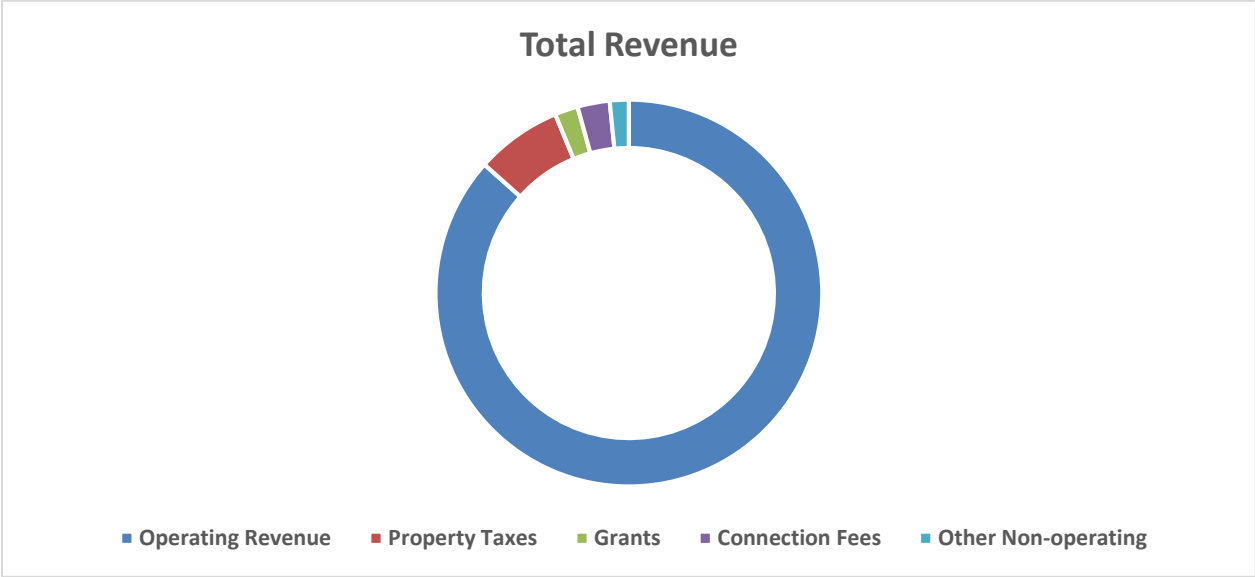


The District's revenue mix is approximately 59% Water Fund, 39% Sewer Fund and 2% General Fund. The District's activities are accounted for in separate funds. Water and Sewer activities are accounted for directly in each fund, respectively. All other activities that are not directly attributable to water or sewer are accounted for in the General Fund and allocated to the Water and Sewer Fund on a monthly basis.

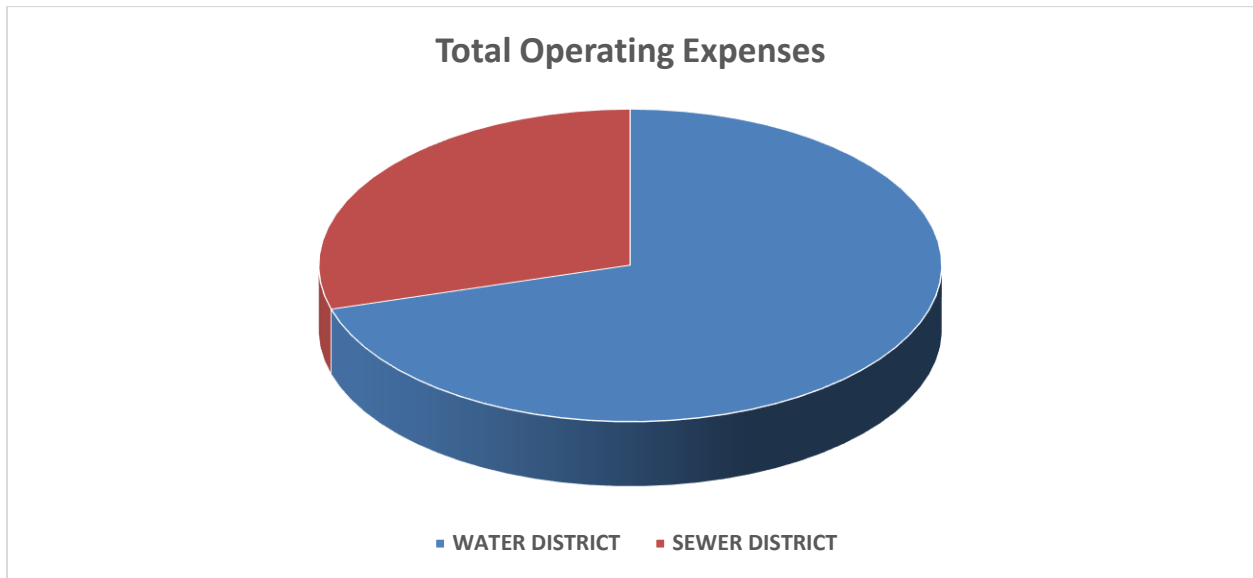
Water revenue



As shown above, while customers served has grown 7% in the last twelve years, consumption has trended in the opposite direction. For the same 12-year time frame (above) total water consumption decreased by 34%. This translates into a substantial decrease in water revenue for the District. These trends, along with new State regulations, forced the District to increase rates beginning in March 2016 to compensate for this.



Expenses



The District's Operating Expenses are approximately 70% Water and 30% Sewer.



MISSION SPRINGS WATER DISTRICT - 2018-2019 DEPARTMENTAL BUDGETS

DEBT SERVICE FUNDS														
	COMBINED DISTRICTS TOTAL FUNDS	OPERATING FUNDS			WATER DISTRICT			SEWER DISTRICT				CAPITAL IMPROVEMENT FUNDS		
		GENERAL DISTRICT	WATER DISTRICT	SEWER DISTRICT	IMPROVEMENT DISTRICT #2	IMPROVEMENT DISTRICT E	INSTALLMENT SALE AGREEMENTS	ASSESSMENT DISTRICT #4	ASSESSMENT DISTRICT #7	ASSESSMENT DISTRICT #11 & 12	INSTALLMENT SALE AGREEMENTS	GENERAL DISTRICT	WATER DISTRICT	SEWER DISTRICT
OPERATING REVENUES	16,640,052	0	10,243,512	6,396,540										
OPERATING EXPENSES:														
CUSTOMER ACCOUNTS	1,213,729	246,447	967,282											
BUILDINGS AND GROUNDS	155,842	155,842												
VEHICLE MAINTENANCE	239,684	239,684												
CENTRAL SERVICES	524,737	524,737												
ADMINISTRATION	1,606,649	1,606,649												
BOARD OF DIRECTORS	334,232	334,232												
PUBLIC AFFAIRS	470,138	458,502	11,636											
HUMAN RESOURCES	226,495	226,495												
ENGINEERING	663,874	588,874	66,000	9,000										
ACCOUNTING	675,825	675,825												
PUMPING	2,058,679		2,058,679											
TRANSMISSION AND DISTRIBUTION	1,464,405		1,464,405											
COLLECTION	347,859			347,859										
TREATMENT	824,911		6,850	818,061										
DISPOSAL	518,358			518,358										
OTHER	649,031	529,728	92,244	27,059										
DEPRECIATION	4,260,873	376,070	2,283,060	1,601,743										
CAPITAL LABOR AND COSTS												41,842	146,388	119,083
ADMINISTRATIVE COSTS ALLOCATED	(630,732)	(5,963,085)	4,043,433	1,288,920								50,424	240,048	151,944
TOTAL OPERATING EXPENSE	15,604,589	0	10,993,589	4,611,000										
NET OPERATING INCOME(LOSS)	1,035,463	0	(750,077)	1,785,540										
ADD NON-OPERATING REVENUE:														
CONNECTION FEES	516,953	0	504,353	12,600										
PROPERTY TAXES	1,386,403	482,516	575,200	328,687										
INTEREST INCOME	579,192	98,673	63,038	51,108	293	807		2,359	6,113	356,801				
UNREALIZED GAINS/LOSSES	(274,284)	(109,776)	(97,536)	(66,972)										
FRONT FOOTAGE FEES	0									0				
GRANT	373,000		0	373,000										
LESS INTEREST & DEBT SERVICE EXPENSE:														
PRIOR YEARS RETIREMENT AMORTIZED	(681,506)	(681,506)	0	0										
INTEREST	(309,901)					(11,908)	(11,217)	(1,820)	(5,872)	(279,084)				
AMORTIZATION-DISCOUNTS & COSTS	(1,440)		(216)			(1,224)				0				
SERVICE CHARGES	(1,332)		(1,284)	0		(48)								
NET INCOME(LOSS)	2,622,548	(210,093)	293,478	2,483,963	293	(12,373)	(11,217)	539	241	77,717	0			
LOAN PROCEEDS	1,000,000			1,000,000										
ADD ASSESSMENT DISTRICT PRINCIPAL	711,029							4,000	11,000	696,029				
ADD DEPRECIATION & AMORTIZATION	4,262,313	376,070	2,283,276	1,601,743		1,224				0				
TOTAL CASH PROVIDED	8,595,890	165,977	2,576,754	5,085,706	293	(11,149)	(11,217)	4,539	11,241	773,746	0			
CASH APPLIED OR RESERVED FOR:														
PRINCIPAL PAYMENTS DUE	(629,869)					(6,900)	(13,120)	(4,000)	(11,000)	(594,849)				
INTER-FUND TRANSFERS	0		(42,093)	179,677	(293)	18,049	24,337	(539)	(241)	(178,897)				
CAPITAL IMPROVEMENTS	(5,999,667)	(1,059,649)	(999,154)	(3,940,864)								1,059,649	999,154	3,940,864
CONTINUING APPROPRIATIONS-YEAR END	0	0	0	0										
CAPITAL REPLACEMENT RESERVE	(2,130,437)	(188,035)	(1,141,530)	(800,872)										
RESERVES (INCREASED) DECREASED	164,083	1,081,707	(393,977)	(523,648)										
TOTAL PRINCIPAL PAYMENTS,														
TRANSFERS & CAPITAL IMPROVEMENT	(8,595,890)	(165,977)	(2,576,754)	(5,085,706)	(293)	11,149	11,217	(4,539)	(11,241)	(773,746)	0	1,151,915	1,385,590	4,211,891

Capital Program/Budget

The District's ongoing capital program represent improvements and/or replacements of critical infrastructure in both the water and sewer systems. District staff continually monitor system conditions and propose projects annually that will minimize system breakdown and increase system efficiencies. District vehicles and equipment are also part of the capital program. Because capital projects often span more than one fiscal year appropriations of funds are carried over from one fiscal year to the next until the projects are completed. Funding for capital projects come from a variety of sources including rates, loans and grants. The District has an active grant program that has yielded many millions of dollars toward capital projects that directly saves ratepayers' money. The current year budgeted Capital Program is as follows:

Total Continuing Appropriations from 2018 fiscal year	\$55,775,965
Total Capital Projects added for 2019 fiscal year	<u>\$ 2,614,680</u>
Final Capital Budget for fiscal year 2019	<u>\$58,390,645</u>
Budgeted Cash outflow related to capital projects	\$ 6,787,705
Expected proceeds from Assessment Districts and Grants	<u>(373,000)</u>
Net Cash outflow related to capital projects	<u>\$ 6,414,705</u>

Funds expended on capital projects in the current year will be spent on projects approved by the Board of Directors in previous years (continuing appropriations) as well as the current year.

Highlights

Rate action progress

January 1, 2018 marked the third increase for the District's five-year rate action plan implemented beginning March 1, 2016. This rate action has been pivotal in the District's recovery from the economic recession and will help to insure the District financially stable future.

Effect of Conservation

The Water revenue graph earlier in this report depicts the inverse relationship between water conservation and water revenue. While conservations efforts are essential to a sustainable future in water supplies, they do have short-term upward pressure on rates. The District is, and has always been, committed to a sustainable future both in water supply and finance.

Grant Efforts

Since 2000 the District has received over \$34 million in grant funds from Federal, State and local granting agencies. These funds have been used to build public infrastructure projects and help keep rates lower over time. The District is continually searching for grant programs that benefit the District and its ratepayers and expects to receive several million dollars in additional grant funds in the coming few years.

Groundwater Protection Program

The District's Groundwater Protection Plan began in 1996 and has been very successful to date. Over \$22 million of grant funds have been secured by the District for this program which has made over 4,500 parcels sewer service ready. This includes the abatement of over 2,800 septic tanks and the installation of over 3 miles of sewer lines. The pursuit of these grant funds continues today for the disadvantaged communities served by the District.

Increase in Reserves

Over the past several years, and because of the 2016 rate action, the District's necessary reserves have increased to a more sustainable level. The Board and staff continue to monitor these levels to ensure the financial sustainability of the District in the future. These reserves enable the District to properly maintain and replace its necessary infrastructure.