

Saddle Creek Community Services District

Draft 2015 Budget Preparation Memorandum
November 14, 2014

1 BUDGET OVERVIEW

1.1 PURPOSE

We are pleased to present to the Board of Directors the proposed 2015 Calendar Year budget. The development of the small public agency budget is as much an exercise in public outreach and education as it is in finance and fiscal accountability. Effective special district budgets tie directly to management goals and objectives, are simply presented and easily understood by the average District service customer.

1.2 TRANSPARENCY

To provide a basis of budget understanding, the assumptions, criteria and procedure of budget development is articulated in this memorandum to offer the reader with the background necessary to comprehend the methodology used and performance to budget within the year currently coming to a close; as well as the ability to transition into the upcoming budget year with the information necessary to identify trends, financial red flags, budget influences and other factors. The budgeting exercise is therefore used as a vehicle to increase financial transparency and accountability.

1.3 ACCOUNTABILITY

Budgeting is also a management tool used to continuously refine financial accounting methods to evaluate the impact of delivering various levels of public services. For example, we need to be able to not only quickly recognize when we have underestimated cost for materials and supplies; we should also have the ability to know whether it was the wetlands maintenance or mosquito control activities that produced the overrun. Throughout the upcoming year, we will be refining our accounting practices to allow for this level of expense tracking so that in future budgets, we can easily understand the value and cost of our administrative overhead as well as each of the services we provide.

1.4 SERVICE LEVELS

Special districts are truly the most responsive vehicle in which to respond to a community's service provision needs. In some cases, a district is formed to provide a single public service such as water or wastewater, and in others such as Saddle Creek, a district is formed to serve as a stable entity in the delivery of services that were mandated as a condition of development. Considering these differences, it is important to understand the fact that some of our service levels are fixed by law, and others are at the discretion of the community through its district Board of Directors.

For example, the Local Agency Formation Commission (LAFCO) Resolution that formed the Saddle Creek CSD assigns to us the responsibility to maintain compliance with the US Army Corps of Engineers, Clean Water Act Section 404 Permit. This permit is an example of a service in which our actions and service levels are for the most part fixed by others. We have a fiduciary responsibility under the permit to employ the staff, purchase the materials and supplies and apply the methods necessary to meet the specific operational conditions detailed in the 100 page permit. Budgetary limitations are not an excuse for noncompliance with permit conditions.

Road maintenance is an example of a service where we have the discretion to set service levels. For the District to accept responsibility for any roads, we require approval of all construction plans and specifications, as well as verification that the roads have been constructed to all applicable standards. There are no state or federal mandates that require us to perform ongoing road maintenance to a specific level; however lack of maintenance or conducting our work in a manner that leaves a *Dangerous and Defective Condition of Public Property* is one of the few instances where a public agency can be held liable for damages determined to be caused by such defects.

Although not mandatory, performing road maintenance to an established standard will reduce all liability to a minimum and maximize the useful life of the road itself; thereby reducing long term costs. Road maintenance to the full industry standard can be extremely expensive for a small community, especially in exclusive (private gated) areas where special districts perform the maintenance and receive NO property taxes, gas tax appropriations, state or federal subventions or transportation grants; such as with SCCSD. This high cost often leads the special district Board to under-fund necessary maintenance work, thus making a conscious decision to perform a lower level of service than required for optimal road life. The Board does have the option to adopt, fund and implement fully compliant industry standard practices.

In order for the Board to direct a road maintenance service level, a condition assessment must be performed, compared to standards and a thorough Capital Improvement Program (CIP) and maintenance program developed. From this evaluation, a financial plan is created to support the CIP and maintenance program, and the Board is then able to make knowledge based decisions on the level of service desired; in particular, whether fully or partially funded. Through the recently adopted Management Objectives, this Board has directed the completion of the condition assessment and CIP development which will significantly affect budget decisions next year.

1.5 2015 BUDGET HIGHLIGHTS:

- Projected 2014 expenditures of \$508,357; \$72,000 under the approved budget
- Total expenses of \$592,936 proposed; an increase of 2% from 2014
- Total special tax revenues of \$572,275
- Three of our maintenance vehicles (carts) have reached their useful life and are proposed to be replaced rather than major maintenance performed
- The adopted Management Objectives will produce additional staff effort, temporarily increasing administrative staff costs by up to 25%
- Approximately \$355,000 available in unassigned funds
- A transfer from our very small (unrestricted) Contingency Reserve is necessary for revenue and expense to balance in this budget
- Much future planning will be conducted in the 2015 budget year; while implementation of the approved plans will be considered in 2016

2 2014 BUDGET PERFORMANCE

Overall, it is projected that revenue and expenses for 2014 will be in line with initial predictions. The 2014 budget was prepared in a manner consistent with previous budgets; primarily to continue operations in a fairly constant state and in compliance with wetlands permits and other requirements. Due to limited revenues, previous budgets did not contain significant capital improvements or purchases, so performance to budget may not necessarily be the best measure of the service performance of the District.

In the last few months, purchases of necessary materials and supplies, as well as necessary repairs to equipment were not made to ensure performance to budget. This deferral of expenses at the end of the calendar year is historically typical for the District and will result in a significantly increased level of spending in the first quarter of 2015. Of primary concerns with this practice is the continued deferral of major maintenance for the District's cart fleet. The condition of this equipment if for the most part poor for equipment over five year old (one in stock), with fatal failure expected in carts over 10 years old (currently 2 in stock).

3 2015 BUDGET DISCUSSION

The District's budget is developed for the ensuing calendar year by the Bookkeeper and General Manager, with input from the Operations Supervisor and staff typically beginning in the fall of each year. Expenses and revenue through the first six to eight months of the year are closely analyzed and then projected through the end of the calendar year. To understand financial trends and identify potential budgeting inaccuracies, the expenses and revenue are then compared to previous years' budgets and actual fiscal year-end figures. These identified trends, as well as areas where we had in previous years budgeted too high or low, are taken into consideration in development of the next fiscal year's budget. Further, budget criteria are established and assumptions about known changes in expenses and revenue for the next year are forecasted and further guide budget development.

This budget proposal is very simply constructed and presented, due to the relatively stable and very limiting nature of our funding and limited expense fluctuations; therefore this narrative is very important in understanding the financial condition of the District. Following are some basic assumptions and criteria used in our budget development:

3.1 SERVICES ASSUMPTIONS

- There will be no changes in the type or extent of the services provided. For example, additional mosquito abatement activities over last year will not be required.
- No new regulations will be enacted to cause a dramatic change in operations
- Implementation of the 2014-15 management objectives will produce a short term (12 to 18 month) increase in administrative effort of approximately 25% as follows:
 - Board Clerk and GM development and implementation of records management systems, policy manual and Board Orientation Manual
 - Increased level of public communication and outreach activities
 - Development of the Capital Improvement Program (CIP)

- Development of financial data management system to better understand cost impacts of the various services and associated CIP
- Development of proposals for increased revenue to fund the CIP and sustain services/service levels for the long term

3.2 REVENUE FORECASTS

- There will be no changes in the type of revenue received; ie no new taxes adopted or fees charged
- With the July 1, 2014 and July 1, 2015 CPI adjustment in the existing special tax, there will be an increase of 3% in the special tax revenue
- We will continue to charge the \$50 fee for vacant lot mowing and will pursue collections more diligently than last year
- \$126,143 in two Certificate of Deposits
- Approximately \$250,000 in cash available in bank checking

3.3 EXPENSE ASSUMPTIONS AND CRITERIA

- Increased all positions and all step levels of the Salary Scale by the 2014 CPI (Bay Area) of 3%
- Included step increases for regular employees that will be due in 2015 based on SCCSD policy and assuming performance expectations are met, maintain 5% between steps
- Added the Clerk and Bookkeeper positions to the salary scale with a starting wage at 3% increase from 2014 and salary steps mirroring field positions
- Health insurance is calculated based on 2015 quoted rates and are increased by 6.76% from 2014
- Workers Compensation is estimated based on 2014 rates
- Bookkeeper position estimated at 25 hours per month; up from 20 hours per month in 2014.
- Board Clerk position:
 - Estimated at approximately 9 hours per week, 38 hours per month (an increase of 25% over 2014)
 - Added training cost of \$1000 for attendance at Board Secretary Conference
 - One time (only) contracted services cost of \$2,400 to organize policies, records, Board actions and establish the long term records management system
- Increases in payroll expenses related to Bookkeeper as a staff position versus contractor
- Elimination of contracted Bookkeeper expense
- Increase uniform/safety supplies by \$600 to include a boot allowance
- Increased purchase of office equipment such as a fireproof file cabinet, appropriate scanning hardware and additional organizational supplies and equipment
- Secure a five year lease to purchase (1) ½ ton pickup, (2) Toro maintenance carts and (1) Toro utility dump cart
- Lease/purchase of new equipment results in an immediate reduction in vehicle and equipment maintenance costs of \$2,500 in 2015, increasing to \$5,000+ savings in 2016

4 AREAS OF BUDGETARY CONCERN

4.1 OPERATIONS

We are staffed with four full time maintenance staff, one full time supervisor and one full time Maintenance Manager. Turnover in maintenance staff is normal, but we have only one (field) maintenance staff person with a tenure of over five years. Although only moderate training time is necessary for employees to become fully qualified, it can take a year or more working in our systems to become fully efficient in the work.

4.1.1 **Solutions** - The cost of turnover should be evaluated as well as the reasons for the turnover. It is recommended that the salary, benefits and advancement opportunities offered be evaluated based on similar industries and similar local government jobs.

We have work carts for each employee to efficiently conduct their work. We do not employ mechanics and major maintenance of these carts can be time consuming to achieve and costly. Employee time is spent hauling carts to the shop, and workload suffers while repairs are being made as employees must double up on duties as we do not stock extra equipment. Due to an aging fleet, much time has been lost over the past year maintaining carts. Our staff is qualified and proficient in basic cart routine maintenance, but the number of repairs have outstripped our capabilities. Also, we have been attempting to perform major repairs ourselves, leaving less field time for essential duties.

4.1.2 **Solutions** – (budgeted for purchase this year) It is recommended that a large portion of the fleet be replaced with new, and then the amount of the lease payments be budgeted continuously to allow for cart rotation with new at a point where major maintenance starts occurring; typically after 5 years.

The only existing District vehicle is a one ton flatbed truck used for all purposes including travel to mandatory training classes, out of town parts and supplies pickup and field work requiring heavy supplies or equipment to be delivered or hauled. The flatbed was purchased with a one time grant and depreciation (replacement) funds have not been previously budgeted and set aside. Due to its use for unintended miscellaneous purposes as the only district truck, the service life of this critical vehicle is being reduced.

- 4.1.3 **Solutions** – (Budgeted for purchase this year) Reserve the one-ton truck for work within its intended purpose of Mosquito Abatement and purchase a standard ½ ton pickup to be used for all other purposes. The life of the one-ton will be extended by five years or more and the ½ ton truck can last easily up to 10 years.

4.2 ADMINISTRATION

Until a permanent location for a District office is identified, limited investment should be made in office equipment and other related infrastructure. The past recordkeeping system needs to be completely renovated and updated to include technology and efficient processes. Finding even the simplest adopted policy currently requires a search of meeting minutes to ensure accuracy. District management needs clear direction of Board policy to ensure that the operation is conducted in accordance with Board expectations. Due to the difficulty in knowing what the Board has and has not adopted, there will undoubtedly be some duplication of effort and missteps until the system renovation is complete.

- 4.2.1 **Solutions** – Resolve the long term office location and review all Board adopted actions, begin compiling a policy manual and develop processes and procedures for future documentation efficiency.

4.3 CAPITAL NEEDS

The special tax funding approved in 2001 was intended to provide the base level funding to keep the District in compliance with permits, then current service expectations, etc. In calculating the 2001 special tax, the cost of major road repairs and improvements, vehicle purchase and replacements, service demands for such items as West Nile Virus and dramatically increasing costs were not contemplated. We have lived within the limited budget for many years, but we are approaching a period of time where additional expenditures will be required; either for direct expenses or to establish adequate reserves for major future projects and purchases.

It is obvious that if we continue with only the 2001 special tax funding as the sole source of revenue, discretionary service levels will have to decrease. We currently do not have adequate revenue to perform major road maintenance that is becoming necessary, vehicles and equipment need to be replaced and specific infrastructure and equipment reserve funds established and funded. Continuing to operate in the same manner fiscally will result in deferred expenses placing an undue financial burden on future generations.

- 4.3.1 **Solutions** – Maintain diligence on expense control, evaluate service delivery expenses and needs, identify and fund needed reserves, and plan to increase revenue. Increasing revenue will require significant planning and public engagement to be successful and the time to plan is now.

5 RECOMMENDATIONS

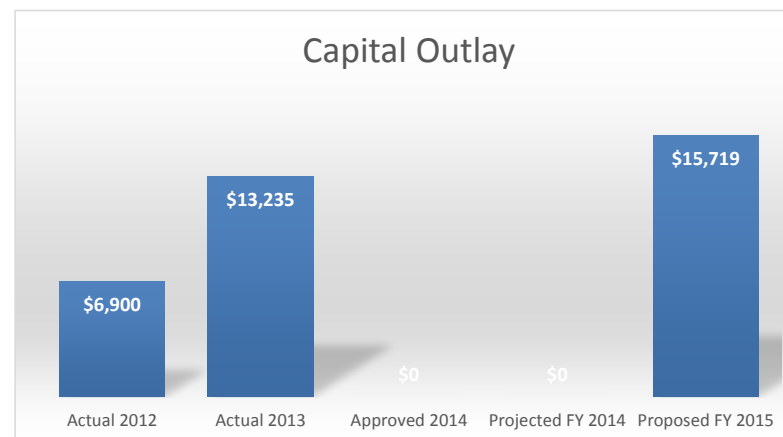
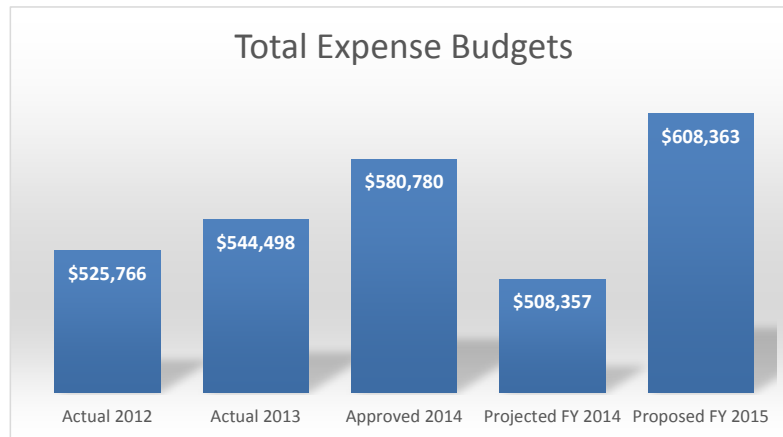
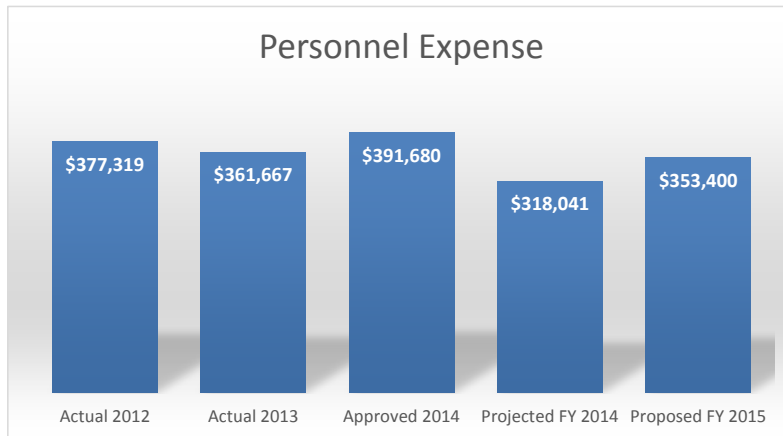
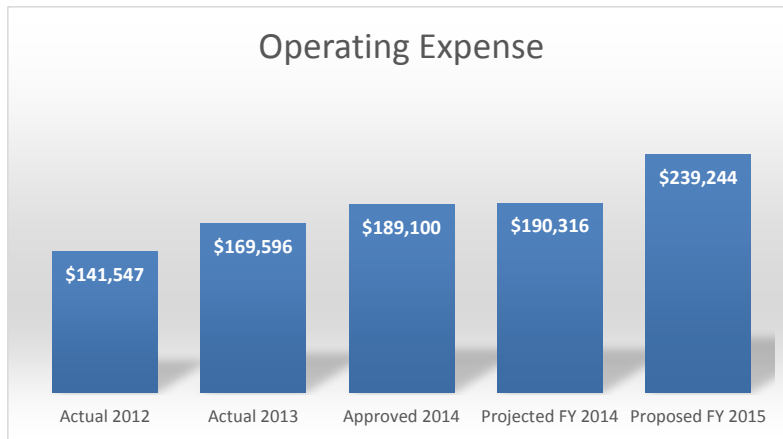
Staff recommends that the Board approve the budget as presented, with the clear understanding of its potential for accomplishments as well as shortcomings. It is further recommended that the Board authorize and direct staff, concurrent with the completion of service planning pursuant to the approved

Management Objectives, the evaluation of possible additional funding sources for District services including special taxes, fees, assessments, grants and the provision of additional services.

SADDLE CREEK COMMUNITY SERVICES DISTRICT
DRAFT 2015 BUDGET SUMMARY

	AMOUNT
TOTAL REVENUE	\$587,275
TOTAL EXPENSES	\$608,363
<u>OVER (UNDER)</u>	<u>(\$21,088)</u>
UNRESTRICTED FUNDS AVAILABLE	\$289,134
PROJECTED BALANCE UNRESTRICTED FUNDS AT 12/31/2015	\$268,046
INCREASE IN EXPENSES OVER 2014 (BUDGETED)	4.5%
INCREASE IN SPECIAL TAX OVER 2014 (BUDGETED)	2.5%

Saddle Creek CSD Budget Overview Charts



SADDLE CREEK COMMUNITY SERVICES DISTRICT
DRAFT 2015 BUDGET-EXHIBIT "A" Page 1 of 2

<u>FY 2015 Proposed Budget (Operational Expenses, Personnel & Capital Outlay)</u>	<u>\$608,363</u>
<u>FY 2015 Projected General Fund Balance (Unassigned Funds):</u>	
Stabilization Funds (Internal Info Only)	\$50,697
Other Unassigned Funds (Internal Info Only)	\$289,134
Total Unassigned Funds	<u>\$339,831</u>

FY 2014 Actual Beginning Balance	\$304,035	FY 2014 Projected Assessment Revenue	\$558,267	FY 2014 Projected Expenditures	\$508,357
FY 2015 Projected Beginning Balance (3)	\$375,919	FY 2015 Projected Assessment Revenues	\$572,275	FY 2015 Projected Total Funds Available	\$948,194

REVENUE

	<u>Proposed FY 2015</u>
Special Tax	\$572,275
Reimbursement for Maintenance and Repair	\$10,000
Other Revenue (Vacant Lot Mowing Fee)	\$5,000
TOTAL REVENUE	\$587,275

OPERATIONAL EXPENSES

	<u>Actual 2012</u>	<u>Actual 2013</u>	<u>Approved 2014</u>	<u>Projected FY 2014</u>	<u>Proposed FY 2015</u>
Audit Expenses	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500
Accounting & Bookkeeping	\$5,626	\$6,152	\$6,000	\$6,800	\$500
Misc. Fees (Notary/Bonds/etc.)	\$476	\$936	\$1,000	\$351	\$351
Legal Expenses	\$0	\$406	\$1,500	\$500	\$1,500
Records Management Services	\$0	\$0	\$0	\$0	\$2,400
Management Fees		\$0	\$28,500	\$28,500	\$57,000
Insurance (Property Loss/Liability)	\$6,052	\$6,065	\$8,000	\$6,359	\$8,000
Miscellaneous/Contingency	\$2,192	\$4,746	\$5,000	\$5,000	\$2,000
Professional Development (Travel/Training)	\$4,847	\$4,816	\$5,000	\$5,000	\$6,000
Dues, Certificates & Subscriptions	\$4,093	\$3,476	\$4,000	\$3,290	\$4,000
Uniform Expenses	\$1,513	\$1,555	\$1,600	\$1,862	\$2,200
Electric Power/Water/Sewer	\$4,888	\$4,826	\$5,000	\$5,049	\$6,000
Telephone Service	\$4,417	\$4,412	\$5,000	\$4,155	\$5,000
Internet Service	\$1,011	\$1,111	\$1,200	\$999	\$1,200
Office Supplies/Postage	\$4,507	\$4,395	\$4,500	\$4,500	\$5,000
Office Equipment Repair/Replacement	\$2,166	\$2,277	\$2,300	\$2,300	\$3,000
Gate Maintenance & Opener Purchase	\$3,264	\$16,922	\$4,000	\$4,000	\$4,000
Streets, Sidewalks & Lighting Maintenance	\$3,275	\$7,416	\$13,500	\$13,500	\$13,500
Landscape Supplies & Repairs	\$18,663	\$20,566	\$21,000	\$21,000	\$21,000
Landscape Equipment Repair/Replacement	\$11,901	\$16,270	\$16,500	\$16,466	\$14,000
Lease/Purchase Tractor	\$9,382	\$3,127	\$0	\$0	\$15,690
Landscape Equipment Gas & Oil	\$5,576	\$6,933	\$7,000	\$7,000	\$7,000
Mosquito Control Products	\$8,188	\$10,970	\$13,500	\$14,513	\$14,513
Mosquito Abatement Monitoring & Testing	\$2,903	\$1,697	\$3,000	\$3,000	\$3,000
Mosquito Abatement Vehicle Gas & Oil	\$12,148	\$11,423	\$13,000	\$13,000	\$13,000
Mosquito Abatement Vehicle Maintenance	\$4,379	\$5,059	\$5,000	\$5,890	\$5,890
County Fees/LAFCO (1)	\$2,750	\$6,006	\$6,500	\$5,578	\$6,000
Reimbursable Maint/Repair Expense (2)	\$9,830	\$10,534	\$0	\$4,204	\$10,000
Total Operational Expenses	\$141,547	\$169,596	\$189,100	\$190,316	\$239,244

(1) County Fees/LAFCO deducted directly from Assessments.
(2) Reimbursements paid or due to be paid by Castle & Cooke.
(3) Beginning balance includes Misc. Income (Reimbursements/Fees & Interest).

Personnel Expenses

	<u>Actual 2012</u>	<u>Actual 2013</u>	<u>Approved 2014</u>	<u>Projected FY 2014</u>	<u>Proposed FY 2015</u>
Workers' Compensation Insurance (13)	\$12,840	\$10,381	\$16,000	\$10,787	\$12,000
Health Insurance (6)	\$50,676	\$44,897	\$58,780	\$48,764	\$60,000
Payroll Taxes (13)	\$24,716	\$25,968	\$28,000	\$20,177	\$23,000
Processing Fees (13)	\$1,253	\$1,366	\$1,400	\$1,372	\$1,400
Directors' Stipend (5)	\$4,700	\$5,600	\$6,000	\$6,000	\$6,000
Employee Wages (8)	\$283,134	\$273,455	\$281,500	\$230,941	\$251,000
<u>Total Personnel Expenses:</u>	\$377,319	\$361,667	\$391,680	\$318,041	\$353,400

- * Annual employee merit increases (step raises) are reflected.
- * Cost of living increases are reflected.
- * Includes IRA contribution for Maintenance Manager (\$3500) & Maintenance Supervisor (\$3000) - adjusted FY 2014.
- * Directors, General Manager & CSD Clerk/Treasurer do not receive Health Insurance Benefits.

Capital Outlay

	<u>Actual 2012</u>	<u>Actual 2013</u>	<u>Approved 2014</u>	<u>Projected FY 2014</u>	<u>Proposed FY 2015</u>
Vrisimo Flail Mower	\$6,900				
2" SDS Max Rotary Hammer with attachments		\$1,349	\$0	\$0	\$0
Workman MDX Cart (2 proposed for 5 year lease)		\$11,886	\$0	\$0	\$5,040
Workman HD w/dump bed (1 proposed for 5 year lease)					\$4,269
1/2 ton Pickup (1 proposed for 5 year lease)					\$ 6,410
<u>Total Capital Outlay</u>	\$6,900	\$13,235	\$0	\$0	\$15,719

Exhibit "B"

SADDLE CREEK COMMUNITY SERVICES DISTRICT
FY 2015 EMPLOYEE CLASSIFICATION & SALARY SCHEDULE

Employee Classification

FY 2015 Salary Schedule

(5) Directors (Elected)
 (1) General Manager

\$100 per Board Meeting Attended
 \$57,000 Annual amount paid monthly

FY 2014 SALARY SCHEDULE

<u>Employee Classification</u>	<u>Positions Authorized</u>	<u>Positions Filled</u>		(Step 1)	(Step 2)	(Step 3)	(Step 4)
				<u>Start</u>	<u>After 1 Yr.</u>	<u>After 2 Yrs.</u>	<u>After 3 Yrs.</u>
Maintenance Manager	1	1	(A)	\$68,495	\$72,100	\$75,705	\$79,490
Maintenance Supervisor	1	1	(A)	\$39,518	\$41,776	\$44,034	\$46,293
Landscape Maint. II	1	0	(H)	\$15.69	\$16.77	\$17.85	\$18.93
Landscape Maint. I	3	4	(H)	\$11.36	\$12.44	\$13.52	\$14.61
Part-Time Maint. I	0	0	(H)	\$11.36	NA	NA	NA
Bookkeeper	0	1	(H)	\$23.18	\$24.33	\$25.55	\$26.83
CSD Clerk/Treasurer	1	1	(H)	\$12.36	\$12.98	\$13.63	\$14.31

(A)=Annual Salary (H)=Hourly Salary

- a) Health Insurance Benefits are provided to the following Employee Classifications after completion of 90 days full time employment with the District; 1) Maintenance Manager, 2) Maintenance Supervisor, 3) Maintenance II and 4) Maintenance I. The District does not pay for Health Insurance Coverage for 1) Employee Dependents, 2) Directors, 3) the General Manager, 4) the CSD Clerk/Treasurer, 5) the Bookkeeper or 6) Part-Time Employees.
- b) Upon completion of each full calendar year of employment with the District in the position of Maintenance Supervisor, the District provides a \$3,000 IRA contribution. This benefit is paid during the month of January in the year following each full calendar year of employment. All payroll costs associated with this benefit are borne by the District.
- c) Upon completion of each full calendar year of employment with the District in the position of Maintenance Manager, the District provides a \$3,500 IRA contribution. This benefit is paid during the month of January in the year following each full calendar year of employment. All payroll costs associated with this benefit are borne by the District.
- d) The Part-Time Maintenance I position is filled only when necessary to provide an adequate level of service during times when full time positions are vacant.
- e) Saddle Creek CSD meets on the third Tuesday of each month. Directors receive a stipend of \$100 for attending the meeting. Directors who miss a meeting are not compensated. The annual stipend for a director who attends all CSD meetings is \$1,200.