SAUSALITO-MARIN CITY SANITARY DISTRICT

1 EAST ROAD

SAUSALITO, CALIFORNIA

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Budget

FY 2017/18

Adopted by Board on June 5, 2017

SAUSALITO-MARIN CITY SANITARY DISTRICT
BUDGET EXECUTIVE SUMMARY
FISCAL YEAR 2017/18

DISTRICT OVERVIEW

The Sausalito-Marin City Sanitary District (SMCSD) is governed by an elected five member Board of Directors and provides wastewater conveyance and treatment service to the City of Sausalito and wastewater collection, conveyance and treatment service to Marin City and other unincorporated areas within the District's boundaries. Wastewater conveyance and treatment service is also provided on a contract basis to Tamalpais Community Services District (TCSD) which includes Muir Woods National Monument and the National Parks Service (Forts Baker, Barry and Cronkhite, Marine Mammal Center and Cavallo Point Resort). The District operates and maintains a complex system, protecting our community's public health, the environment and San Francisco Bay.

DISTRICT OPERATIONS

The District operates and maintains a 6.5 million-gallon per day secondary wastewater treatment plant, eleven (11) sewage pump stations, and approximately ten (10) miles of pipelines. Four (4) of these pump stations are operated and maintained by SMCSD for the City of Sausalito on a contract basis. The District's treatment plant site, located in Fort Baker, recently renewed its property lease agreement with the National Park Service for an additional 32 years. There are thirteen (13) full-time staff currently employed by the District. In addition, there is an intern program where up to two positions may be funded as temporary part-time (non-benefited).

DISTRICT FINANCES

The overall financial condition of the District remains strong. An important long term consideration is the execution of the District's adopted 10-year capital improvement plan currently entering its seventh (7th) year. Additionally, the District has spent considerable effort in adopting a sewer rate structure that spreads costs to its customers in a fair and equitable way. The District's residential sewer rate structure now includes both a base cost (63%) and volumetric cost (37%) component to better distribute expenses to our customers. The non-residential (commercial) customer class sewer charge method was kept the same since it includes a base cost and volumetric cost component.

The adopted 5-year sewer rate plan was initiated for fiscal years 2014/15 to 2018/19. The revenue generated from sewer rates is being used largely to fund the District's capital improvement plan and also to keep pace with the cost of operations, supplies, service and construction.

In FY 2014/15, the District Board adopted a Residential Sewer Rate Rebate program. The program offers a five (5) percent rebate on the annual sewer charge to assist our low and fixed income customers that are also enrolled in the Pacific Gas and Electric's (PG&E) CARE or FERA programs.

In FY 2014/15 the Board approved a reserve policy standard procedure and updated in FY 16/17. The purpose of the reserve policy is to ensure the District has adequate reserve funding to meet its short and long-term operating and capital obligations. Establishment of the policy strengthens the financial stability of the district against uncertainty, provides adequate reserves for debt covenants and minimizes potential customer sewer service rate fluctuations caused by unanticipated expenditures.

In February 2017, the District formed the Marin Public Financing Authority with Las Gallinas Sanitary District to issue 2017 Revenue Bonds. The Bonds are being issued primarily to finance capital improvements to the District's wastewater treatment plant and other capital improvements to the District's facilities. The District intends to use a portion of the proceeds of the Bonds to finance a portion of the capital improvements included in the District's Capital Plan over the next five fiscal years. The bonds for financing have been sold and awarded in the amount of $33,630,000 with an annual average debt service of $2,153,000 over 25 years.

REVENUE

The District is in the fourth year of a five year rate increased based on the Capital Improvement Plan adopted by the Board in FY 2011/12. The rate used in preparing the budget is from the preliminary calculations for the user charge for FY 2017/18 based on the water usage data provided by Marin Municipal Water District for summer 2016 and winter 2017. In order to meet projected revenue requirements, the sanitary sewer rate will be $850 for single family and non-residential commercial customers, $756 for multi-family and $646 for floating homes. The District also charges an additional $71 for residential and non-residential customers located in the unincorporated areas of the District's jurisdiction, including Marin City, for collection system maintenance and rehabilitation. The City of Sausalito, which is responsible for the City's collection system, charges City residents a separate collection system charge.

The fiscal year 2017/18 budget includes a sewer service charge revenue projection of $6,263,829 which is an estimated increase of 2%. This revenue projection includes anticipated funding from the adopted 5-year sewer service charge rates. The budget includes an estimated County property tax allocation $570,000 which reflects the improving economy and housing market.

EXPENSES

The overall operation, maintenance and administrative expenses are budgeted at $146,891 higher than last fiscal year from $3,824,499 to $3,971,390 for the current year. The projected operating budget reflects salary and benefits with 13 full-time positions. The current Labor Memorandum of Understanding (MOU) is going to expire on June 30, 2017. The replacement MOU is under negotiation between the District and the Operating Engineers Union Local No. 3 (OE3).

Helping offset benefit expenses is the employees' 8 percent reimbursement to the District for CalPERS pension plan costs included in the labor contracts. For fiscal year 2017/18, employees are reimbursing the District for 6.8 percent of their pension plan cost. The contribution percentage will be increased each year until fiscal year 2018/19 when employees will be contributing the full 8 percent. In addition, 5 of the District's 13 full-time positions are covered under the 2013 Public Employees' Pension Reform Act pension plan which is more economical for the District.

There is $189,042 expense to account for the National Park Service Property Lease cost.

RESERVES

Under the proposed budget, total reserves are estimated to be approximately $9,832,669 at the end of fiscal year 2017/18. Reserve balances for the respective operations, capital and renewal and replacement accounts are within District reserve policy goals. The projected budget reserve balance at fiscal year-end 2016/17 is higher than the District's financial model estimate because the Treatment and Wet Weather Flow Upgrades Project was not started as planned, construction costs have been lower than expected and the actual year end budget expenditures are coming in lower than budgeted.

In fiscal year 2017/18 the District is in the first year of funding a Self-Insurance and Deductible Reserve account to provide deductibles of the various insurance policies carried by the District.

DEBT SERVICE

The District's total annual debt service amounts to $2,503,785. The existing 2008 capital project City National Bank Loan of $1,943,318 matures in 2028. The 2012 Locust Street State Revolving Fund Loan of $1,816,649 matures in 2032. The Revenue Bonds of $33,630,000 matures in 2042. Under the District's 2013 service agreement with TCSD, they are responsible for a cost share of the capital debt service. TCSD's respective debt service cost share annually is $121,352 for the existing loans, $74,892 for the existing Interdistrict loan, $725,804 for the Revenue Bonds and $136,337 for deferral through FY16/17. Their current loan balance is $2,072,473, their responsible share of 2017 Revenue Bonds is $11,434,200 and their deferral balance is $2,166,766 at the beginning of FY 17/18.

CAPITAL PROGRAM

The 10-year Capital Improvement Plan (FY 2011/12 to 2020/21) includes needed upgrades and rehabilitation of District infrastructure to address new discharge regulations, eliminate peak wet weather overflows, to improve treatment plant performance and to repair or replace aging infrastructure.

The 10-year CIP has been updated to reflect current project schedules and costs. Some project schedules have been shifted to improve project sequencing and to spread out funding requirements. The total program is estimated at $53 million. To date, approximately $12.5 million of collection and treatment plant improvements have been completed. Of the remaining $41.5 million, approximately $31.8 million is programmed for the treatment plant, $6.7 million for sewer collection conveyance projects, and $3 million for other capital expenses. The District's Capital Plan is subject to change, and the project costs and timing of projects will be revised annually.

The FY 2017/18 CIP includes larger capital projects totaling $2,533,524, capital outlay for one time-purchases of equipment totaling $89,500 and renewal and replacement projects to District facilities totaling $110,000.

FUTURE VISION

Looking ahead, the District will begin the Wet Weather Upgrade Project to upgrade and expand the plant to meet future regulatory requirements and provide treatment for wet weather flows up to 9 MGD. Additionally, our long-standing operation and maintenance service agreement with the City of Sausalito needs to be revised to reflect a more modern shared service business arrangement.

The District continues to keep customer sewer rates as stable as possible following the current 5-year sewer rate plan. The District has spent considerable time evaluating and understanding the financial aspects of our agency. Important facets of this work have been adjusting customer sewer service rates to align with our District infrastructure investment needs along with optimizing operating and capital expenses while identifying areas to gain efficiency.

The renewal of our NPDES permit is required every 5 years. The District is due to renew this important permit this year which allows us to operate the plant and system. There is funding to accomplish this task in this year’s budget. Evolving regulatory compliance standards to improve discharge water quality will continue to pose challenges, both from a permitting standpoint and funding required to make needed capital infrastructure improvements.

The District continues to make progress towards compliance with the the EPA order and the ever-changing regulatory environment for wastewater treatment through capital improvements to the wastewater treatment and conveyance system. The District’s Capital Improvement Program is funded by a combination of a revenue bond and the revenue from our sewer service charge. The funding allows the Treatment & Wet Weather Flow Upgrade Project to start as early as June of this year. The funding additionally allows us to make progress on several other significant projects such as upgrading the secondary sedimentation tank equipment along with upgrades of pump stations essential to the efficient and effective operation of our system.

Lastly, there is a continued effort to keep the District focused on key areas is the 2017-2022 Strategic Plan. The District recently completed its annual review of the plan. The adoption and annual review signifies the importance of the plan to the District, its Board of Directors, and employees along with the effort placed on achieving continuous improvement in every facet of District Operations. The Strategic Plan serves as a framework for decision making over the five-year period.

Sincerely,

Jeffrey Kingston
General Manager

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

6/5/2017

BUDGET SUMMARY

Expense

Operations & Maintenance	FY 17/18 Budget	% of Total
Salaries and Benefits	$ 2,380,966	26%
Operations	$ 505,876	5%
System & Plant Maintenance	$ 306,025	3%
Wastewater Monitoring & Testing	$ 79,866	1%
Utilities and Telephone	$ 278,359	3%
General and Administrative	$ 420,299	5%
Operations & Maintenance Total:	**$ 3,971,390**	43%
NPS Property Lease:	$ 189,042	2%
Operations & Maintenance Total:	***$ 4,160,432***	*45%*

Capital	FY 17/18 Budget	% of Total
Cash Funded Capital		
Capital Projects	$ 2,533,524	28%
Capital Outlay	$ 89,500	1%
Repair and Replacement	$ 110,000	1%
Cash Funded Capital Total:	**$ 2,733,024**	**30%**
Debt Service	$ 2,503,785	27%
Debt Service Total:	**$ 2,503,785**	**27%**
Capital Total:	**$ 5,236,809**	57%
Expense Budget Total:	**$ 9,208,199**	**100%**
Bond Funded Capital	**$ 13,000,000**	**59%**
Expense Budget with Bond Total:	**$ 22,208,199**	**100%**

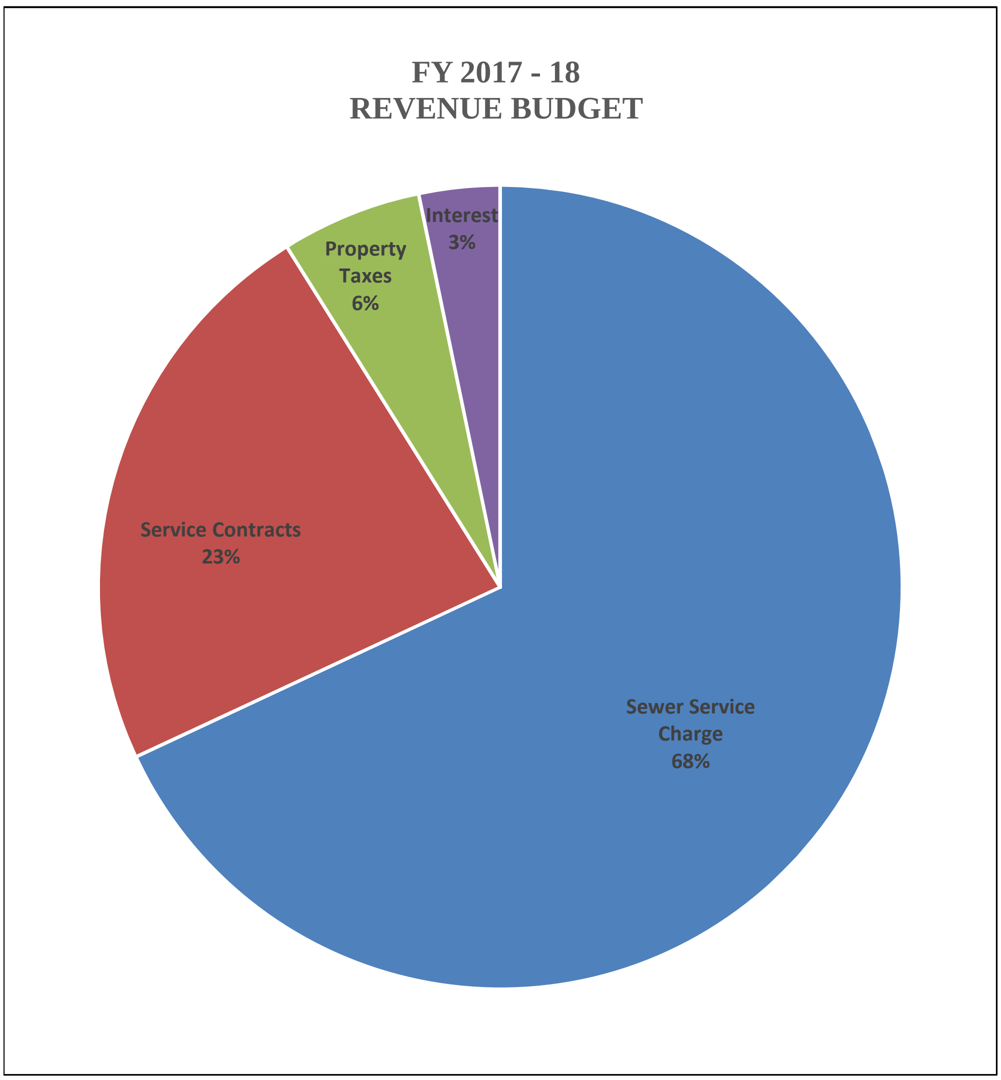
Revenue

Category	FY 17/18 Budget	% of Total
Operating	**$ 8,391,148**	**91%**
Non-Operating	**$ 877,000**	**9%**
Revenue Budget Total:	**$ 9,268,148**	**100%**
Reserve Transfer	***$ 59,949***	

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

REVENUE BUDGET DETAIL

Category	Source of Revenue	FY 17/18 Budget		% of Total
Operating				
	Sewer Service Charge	$	6,263,829	67.6%
	Service Contracts	$	2,124,819	22.9%
	Miscellaneous	$	2,500	0.0%
	Operating Total:	**$**	**8,391,148**	**90.5%**
Non-Operating				
	Property Taxes	$	570,000	6.2%
	Connection Fees	$	7,000	0.1%
	Interest	$	300,000	3.2%
	Non-Operating Total:	**$**	**877,000**	**9.5%**
	Revenue Budget Total:	**$**	**9,268,148**	**100.0%**



SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

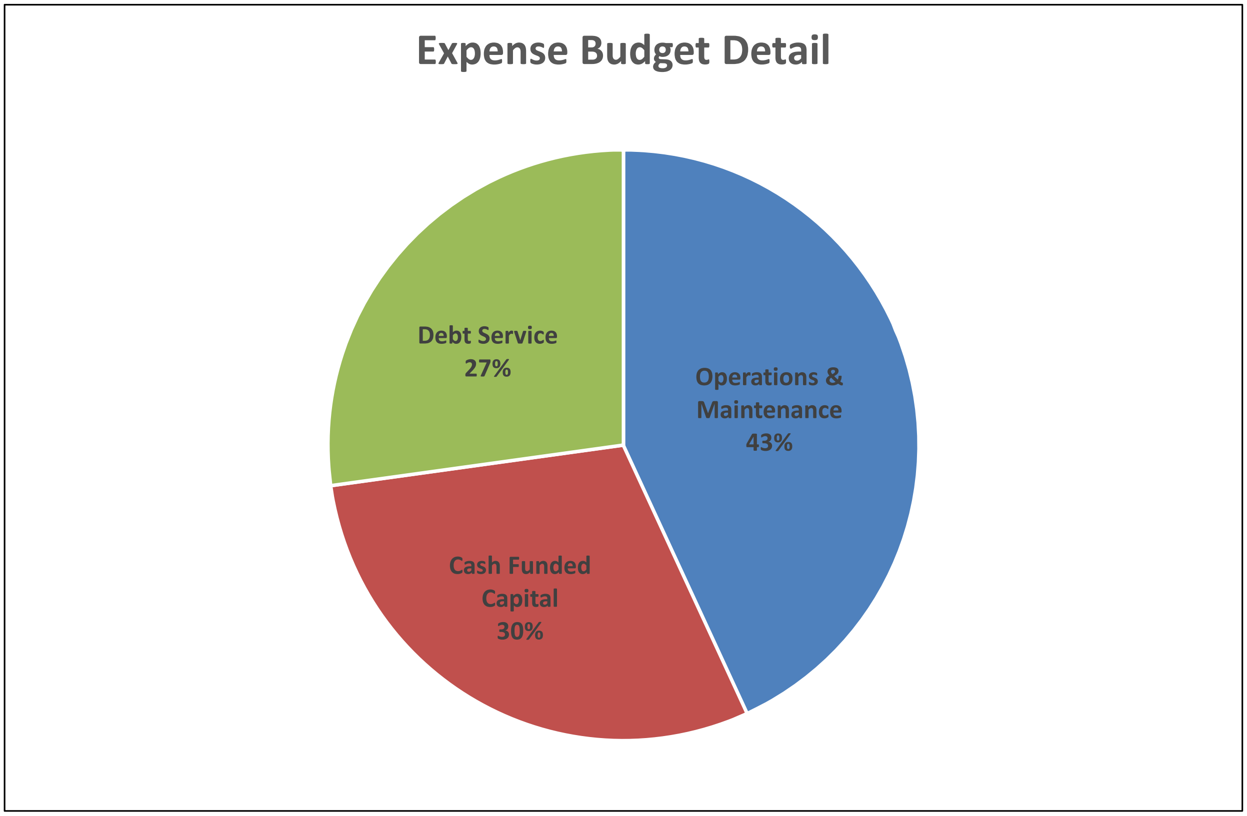
EXPENSE BUDGET DETAIL

Operations & Maintenance	FY 17/18 Budget	% of Total
Salaries and Benefits		
Salary	$1,472,438	16.0%
Payroll Taxes	$104,630	1.1%
Employee Retirement	$317,234	3.4%
Employee Benefits	$452,807	4.9%
Worker's Compensation	$33,857	0.4%
Salaries and Benefits Total:	**$2,380,966**	**25.9%**
Operations		
Chemicals	$179,657	2.0%
Fuel	$13,600	0.1%
Permits and Fees	$116,223	1.3%
Waste Disposal	$85,440	0.9%
Parts, Tools, Materials & Supplies	$59,960	0.7%
Vehicles	$15,400	0.2%
Safety	$35,596	0.4%
Operations Total:	**$505,876**	**5.5%**
System & Plant Maintenance	$306,025	3.3%
System & Plant Maintenance Total:	**$306,025**	**3.3%**
Wastewater Monitoring & Testing	$79,866	0.9%
Wastewater Monitoring & Testing Total:	**$79,866**	**0.9%**
Utilities and Telephone		
Electricity	$241,500	2.6%
Telephone	$31,359	0.3%
Water	$5,500	0.1%
Utilities and Telephone Total:	**$278,359**	**3.0%**
General and Administrative		
Conference & Training	$28,800	0.3%
Professional Services	$301,500	3.3%
Insurance	$52,488	0.6%
Administrative	$37,511	0.4%
General and Administrative Total:	**$420,299**	**4.6%**
Operations & Maintenance Total:	**$3,971,390**	**43.1%**
NPS Property Lease:	$189,042	2.1%
Operations & Maintenance Total:	**$4,160,432**	45.2%

Capital	FY 17/18 Budget	% of Total
Cash Funded Capital		
Capital Projects	$2,533,524	27.5%
Capital Outlay	$89,500	1.0%
Repair and Replacement	$110,000	1.2%
Cash Funded Capital Total:	**$2,733,024**	29.7%
Debt Service	$2,503,785	27.2%
Debt Service Total:	**$2,503,785**	27.2%
Capital Total:	**$5,236,809**	56.9%
Expense Budget Total:	**$9,208,199**	**100.0%**
Bond Funded Capital	**$13,000,000**	**58.5%**
Expense Budget with Bond Total:	**$22,208,199**	**100.0%**

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

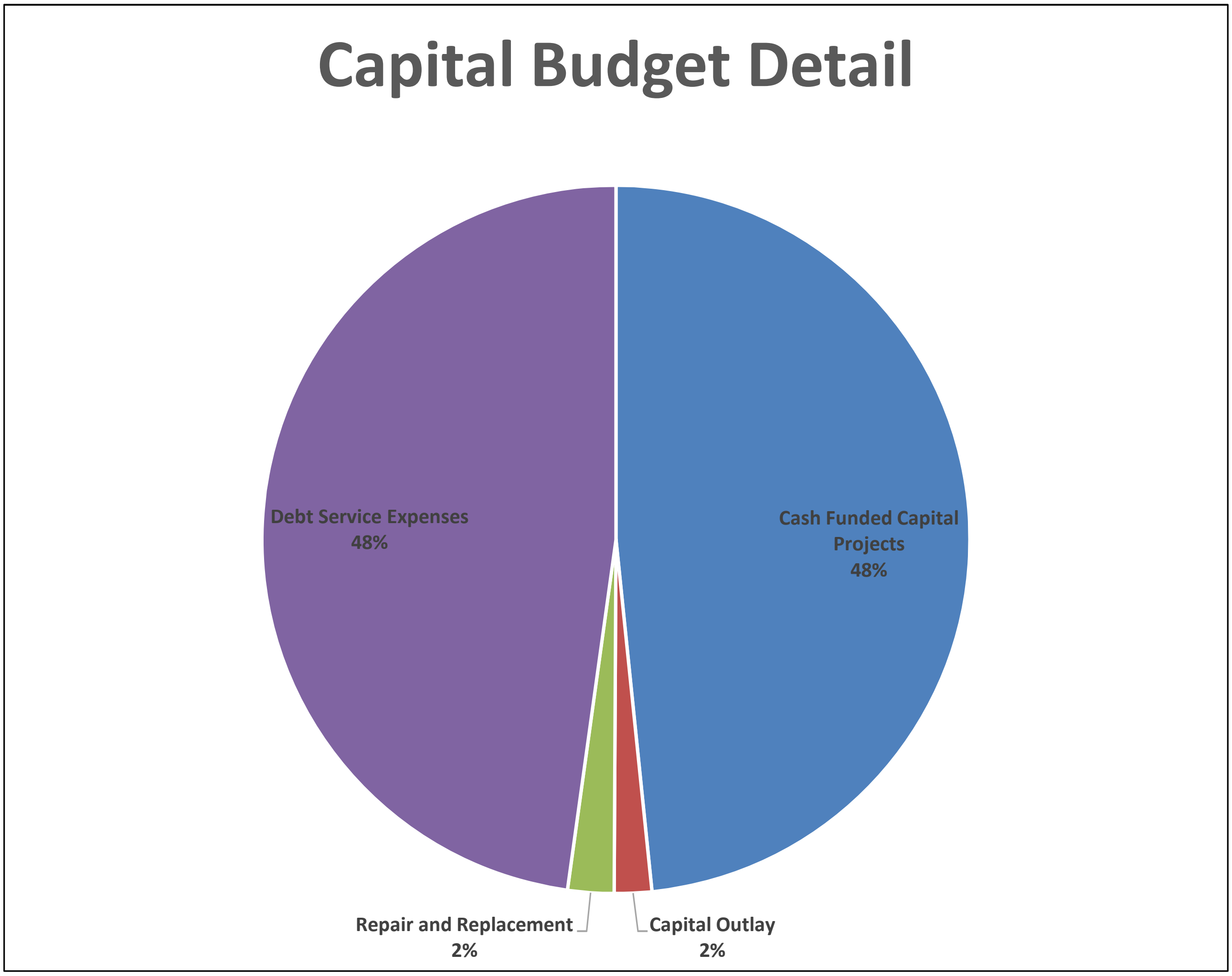
6/5/2017



SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

CAPITAL BUDGET DETAIL

Capital	FY 17/18 Budget
Cash Funded Capital	
Capital Projects	
Primary Digester Cleaning, Inspection and Structural Repair	$100,000
Secondary Sediment Tanks Equipment Upgrade Project	$426,524
Sludge Handling Project - Study	$10,000
Highway Booster Pump Station Rehab. & Force Main Inspection	$400,000
Coloma Pump Station Improvement (and Marin City Flow Meter)	$600,000
Whiskey Pump Station Improvement	$516,000
Princess St. Pump Station Study and Improvements	$50,000
Energy Efficiency Survey	$15,000
Shop/Operator/Equipment Facilities Study	$40,000
Engineering and Project Management	$376,000
Cash Funded Capital Projects Total:	$2,533,524
Capital Outlay	
Technology Upgrades	$57,500
Locust Street Pump Station - Backup Pump	$32,000
Capital Outlay Total:	$89,500
Repair and Replacement	
Effluent Ultrasonic Meter Replacement	$10,000
Main Street Pump 1 Rebuild - Phase 2	$50,000
MCC Room Transformer Upgrade	$10,000
Princess Control Upgrade	$15,000
Marin City Control Upgrade	$25,000
Repair and Replacement Total:	$110,000
Cash Funded Capital Total:	**$2,733,024**
Debt Service	
2008 Bank Loan Principle and Interest (Mature 2028 - 4.1%)	$221,262
2012 SRF Loan - Locust Str Pump St. (Mature 2032 - 2.6%)	$147,806
2017 Revenue Bonds (Mature 2037 - 3.485%)	$2,134,717
Debt ServiceTotal:	**$2,503,785**
Capital Total:	**$5,236,809**
Bond Funded Capital	
Treatment & Wet Weather Flow Upgrades Project	$13,000,000
Bond Funded Capital Projects:	**$13,000,000**
Capital Total with Bond:	**$18,236,809**


Capital Budget Detail
Debt Service Expenses
48%
Cash Funded Capital Projects
48%
Repair and Replacement
2%
Capital Outlay
2%

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

RESERVES SUMMARY

	OPERATING RESERVE	CAPITAL RESERVE (RESTRICTED)	REPAIR AND REPLACEMENT RESERVE	DISASTER RECOVERY RESERVE	SELF-INSURANCE AND DEDUCTIBLE RESERVE	TOTAL COMBINED RESERVE
Estimated FY16/17 Ending Reserve Total	**2,634,562**	**$6,264,840**	**$423,318**	**$500,000**	**$0**	**$9,822,720**
FY 17/18 REVENUE						
Sewer Service Charges	6,263,829					$6,263,829
Property Taxes	0	$570,000				$570,000
Service Contracts:	1,066,630	$1,058,189	$0	$0	$0	$2,124,819
Interest from Reserve	300,000	$0				$300,000
Miscellaneous other revenue	2,500					$2,500
Connection Fees		$7,000				$7,000
FY 17/18 Revenue Total	**7,632,959**	**$1,635,189**	**$0**	**$0**	**$0**	**$9,268,148**
Transfers In (Out)	(3,761,569)	$3,551,569	$110,000	$0	$100,000	$0
FY 17/18 Revenue & Transfers Total	**3,871,390**	**$5,186,758**	**$110,000**	**$0**	**$100,000**	**$9,268,148**
EXPENSES						
Operating Expenses	3,971,390					$3,971,390
Capital Projects		$2,533,524		$0	$0	$2,533,524
Capital Outlay		$89,500				$89,500
Repair and Replacement			$110,000			$110,000
Debt Service (Restricted)		$2,503,785				$2,503,785
FY 17/18 Expenses Total	**3,971,390**	**$5,126,809**	**$110,000**	**$0**	**$0**	**$9,208,199**
Net Increase (Decrease) in Reserve	(100,000)	$59,949	$0	$0	$100,000	$59,949
Estimated FY 17/18 Ending Reserve Total	**2,534,562**	**$6,324,789**	**$423,318**	**$500,000**	**$100,000**	**$9,882,669**

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET

RESERVE POLICY

	OPERATING RESERVE	CAPITAL RESERVE (RESTRICTED)	REPAIR AND REPLACEMENT RESERVE	DISASTER RECOVERY RESERVE	SELF-INSURANCE AND DEDUCTIBLE RESERVE	TOTAL COMBINED RESERVE
Purpose	Provide working capital for operating expense cash flow during year.	Provide capital for major capital projects in 10 year capital program.	Provide capital for renewal and replacement of equipment and appurtenant assets.	Provide additional capital funding for emergency recovery until long-term funding is arranged from rate increases, loans, debt.	Provide funding for the deductibles of the various insurance policies carried by the District.	
			Current Reserve Levels			
FY 2016/17 - Estimated Fiscal Year Ending Balance	$2,634,562	$6,264,840	$423,318	$500,000	$0	$9,822,720
FY 2017/18 - Projected Fiscal Year Ending Balance	$2,534,562	$6,324,789	$423,318	$500,000	$100,000	$9,782,669
			Long Range Target Level Goals			
Target Balance	$2,978,543	$4,750,000	$500,000	$1,500,000	$100,000	$9,728,543
	Nine-months of annual operation and maintenance expenses.	1.5 times the average annual 10-year CIP expense. Includes debt service payments.	Two-years of average annual renewal replacement costs	One-year of average annual 10-year CIP cash funded capital expense.	To be adjusted if there are changes to policy coverages or deductibles.	
Minimum Balance	$1,323,797	$518,420	$250,000	$250,000	$100,000	$2,342,217
	Four-months of annual operation and maintenance expenses. Also funding to cover any restricted reserve obligations.	Funding to cover the 10-year CIP debt service and other restricted reserve obligations.	One-year of average annual renewal and replacement costs.	Minimum funding to aid in disaster recovery.	Minimum funding for the deductible portion for the various insurance policies carried by the District.	

Other Financial Policies and Rate-Making Guidelines

Reserve funding priority: Operating, Capital, R&R, Disaster Recovery and Self-Insurance and Deductible Reserve as funding becomes available.
Maintain adequate Capital Reserve to fund CIP, but debt financing may be required for major upgrades.
Maintain adequate R&R Reserve to avoid debt financing minor facilities.
Rate increases will be moderated to minimize rate shock (e.g., phase in increases, avoid excessive increases followed by decreases).
Rates are adjusted to keep pace with inflationary cost increases.
When reserve balances allow, inter-fund borrowing and transfer may occur as a means of rate stabilization.