

SAN ANTONIO WATER COMPANY
MINUTES OF THE SAN ANTONIO WATER COMPANY
Wednesday, December 6, 2016

An open meeting of the Board of Directors of the San Antonio Water Company (SAWCo) was called to order at 9:30 a.m. on the above date at the San Antonio Water Company, 139 North Euclid Avenue, Upland, California. Directors present were Will Elliott, Ken Willis, Bob Cable, Glenn Bozar, Tom Thomas, Sue Sundell and John Gerardi. Also in attendance were SAWCo's General Manager Charles Moorrees, Assistant General Manager Teri Layton, and Accounting and Personnel Specialist Joni Ruggles. Director Thomas presided.

- Call to Order
- 1. Recognitions and Presentations: None.
- 2. Additions-Deletions to the Agenda: None.
- 3. Shareholder-Public Testimony: None.
- 4. Budget Workshop:

Mr. Moorrees delivered a PowerPoint presentation and distributed slide handouts to the Board.

- A. "Draft" CY2017 Capital Improvement and Capital Outlay Budget** – Mr. Moorrees presented the Capital Improvement budget for 2017.

Eleven projects were identified to carry over into CY2017; Well 31 Biological Treatment Plant, Cucamonga Crosswalls, Basin 6 Desilting, New Office Relocation Plan, WFA Pipeline Connection, Holly Drive Reservoir Design, Holly Drive Booster/VFD option, CVWD Connection, Tyler Technologies Inventory and Work Order, Water System Master Plan, and Small Business Server. Mr. Moorrees reviewed the carry-over projects; their budgeted amounts, expended amounts and the amount budgeted to be spent in 2017 to complete the projects.

Mr. Moorrees then presented twelve other Capital Outlay projects to begin in CY2017. Some of the more prominent projects included Reservoir 7 Design and Replacement, Holly Drive Reservoir Interior Coating, and Well 24 Rehabilitation.

Total Expenses (incorporated in operational budget) are \$581,000; Capital Expenditures are \$2,200,000 Depreciation and Obsolescence Reserves balance at the end of October 2016 equaled \$3,230,799 leaving a remaining amount of \$957,725.

- B. "Draft" CY2017 Administration and Operations Budget-**

Revenues

Revenues are based on projected revenues without the commodity rates. Water Sales for domestic, municipal and miscellaneous are projected to equal that of 2016's projected sale amount, \$2,994,412. Municipal Water Sales are projected to be at \$197,678 which less than the total amount projected for 2016.

Ground leases include a Sprint tower lease at Well 26, the Tolle Nursery Lease and the newer Verizon tower lease. The remaining revenues are based on CY2016 projected revenues.

Water Sales/Stored G.W. [DR] – Staff had a difficult time finding a buyer for stored water in Six Basins in 2016. Stored water sales for 2017 are projected to be lower than in 2016. Total Revenues projected for CY2017 are \$3,291,196 without the commodity rate increase.

General and Administrative Expenses

Mr. Moorrees advised of a 13% increase on health insurance and an 8% increase on life insurance. The amount for legal fees included additional funds for special counsel to move forward with the Cucamonga Judgment.

A total of \$1,091,154 of General and Administrative Expenses is projected for CY2017.

Facilities and Operations and Maintenance Expenses

Repairs to facilities include rehabilitation of Well 24 and Well 19 and a tracer study for Well 15 and Well 16. Water Resource Management includes Cucamonga Basin management, Cucamonga crosswalls, and Basin 3. Assessments of \$27,660 for Six Basins and \$188,218 for Chino Basin is also included under Water Resource Management.

A total of \$3,330,126 of Facilities and Operations and Maintenance Expenses are projected for CY2017.

Combining net income with total expenses reveals a budget of -\$1,327,763. When including the sale of stored water the budget becomes -\$1,130,084.

With reduced water supply and back to back entitlement reductions it is evident that without any significant increase in revenues, expenses will not be met. Even if major expenses are deferred, the current rate is not sufficient to cover expenses. Staff would like to have a new rate adopted by February of 2017. Mr. Moorrees presented a scenario of the CY2017 budget should a rate increase to \$0.80/hundred cubic foot (hcf) to the base rate be established. The tiered rate would increase to \$1.55/hcf. In the scenario the net income without depreciation reserves (DR) would be \$2,911. Including DR funds, net income would be \$200,589.

Mr. Moorrees recommended monitoring CIP spending to maintain a minimum threshold of Depreciation and Obsolescence and Operating Reserves of \$3,000,000. Water rates sufficient to cover expenses is also needed.

In order to accomplish all of the items on the CY2017 budget, reserves would be reduced to roughly \$950,000. The board felt it wise to keep a reserve of at least \$1,000,000.

Director Elliott moved and Director Bozar seconded to approve the negative budget for CY2017 with the understanding that a rate increase determined by the Rate and Fees Study is scheduled for early 2017 and is projected to bring a positive budget by the end of the 2017 calendar year. Motion carried.

5. Director's Comments and Future Agenda Items:

Adjournment: 10:35 a.m.

Assistant Secretary
Charles Moorrees