

Proposed MSMD 2019 Budget

12/05/18 Budget Notes by General Manager

Public Participation

The Proposed 2019 Budgets for the MSMD and MRMD were presented at the November 7, 2018 Board meeting, at a public workshop held the evening of November 15, 2018, and at the December 5, 2018 Board meeting and public hearing. Copies of the various draft documents were posted on the MSMD website and hard copies were available for review or pick-up at the MSMD office.

Meridian Ranch Metro District Proposed 2019 Budget

- The MRMD Budget is primarily related to long term debt serviced by mill levies.
- Upon the advice of legal counsel, the 2019 MRMD Budget will include a new fund specifically for the recently created Ranch Subdistrict.
- The MRMD Proposed 2019 Budget was introduced by CRS at the Board meeting of 11/7/18 and updated for the 12/5/18 Board meeting.

Meridian Service Metro District Proposed 2019 Budget

- MSMD has multiple Funds, each with its own budget. These Funds are:
 - Fund 10 – General Fund
 - Fund 15 – Parks & Recreation Fund
 - Fund 30 – Capital Fund
 - Fund 40 – Water Fund
 - Fund 50 – Sewer Fund
- Revenue estimates for 2019 assume 225 new taps and an average over the year of 100 new taps (not all will connect early in the year so service fees revenue will be less than the total taps times the fees). The 225 new taps is the recommended estimate by the developer.
- Revenue estimates for 2019 assume a 0%/4.5% (Alternate 1/Alternate 2) average increase in service fees for water and sewer and a 9% increase in service fees for Parks & Recreation. Note the CPI increased 3.6% from August 2017 to August 2018. The State minimum wage is increasing 9% from \$10.20 in 2018 to \$11.10 in 2019. It will increase again to \$12.00 in 2020. Employee medical insurance costs will increase 7% in 2019. This will add upward pressure to all salaries and wages.
- Salaries and wages for 2019 are based on a 3.6% COLA plus a merit-based bonus pool based on 3% of payroll that is available for year-end bonuses at the discretion of the General Manager and approval by the Board. Actual salaries and wages will be recommended by the GM to the Board based on performance reviews. Total recommended salary adjustments will be within the total 2019 Adopted Budget.
- New Positions in 2019
 - General Fund 10 includes one additional admin/accounting position for 7 months
 - Parks & Recreation Fund 15 includes one additional irrigation technician and vehicle
 - Parks & Recreation Fund 15 includes new MRRC positions based on the transition plan approved by the Board on 9/11/18
- 2019 estimated costs for services from CRS and GTL/TB based on 70% of 2018 actuals for CRS and 50% of actuals for GTL/TB. The assumption is that outside services labor will decrease in 2019 as a result of increased MSMD staff. This approach was used in all Funds.

- The District has not established dedicated reserve funds other than the emergency repair reserve. Various professional and industry organizations recommend reserves for various purposes. The General Manager recommends establishing a target balance as follows for the emergency repair reserve, for a new rate stabilization reserve, and for a working capital operating reserve (fund balance):
 - Emergency Repair Reserve Target Balance \$2,000,000
 - Rate Stabilization Reserve Target Balance 10% of operating revenues
 - Working Capital Operating Reserve 3-6 months expenditures

The 12/5/18 Revised Proposed 2019 Budgets show the recommended fund balances for working capital reserves and recommended contributions to the emergency repair reserve, and to the new rate stabilization reserve.

General Fund 10

- The 2019 General Fund operating budget is balanced when labor is allocated to the enterprise funds proportionately to revenue.
- In 2019, expenditures and revenues related to District special events and Falcon Freedom Days have been moved from the General Fund 10 to the Parks & Recreation Fund 15.
- The Proposed 2019 Budget includes 7 months of an additional staff person (Administrative Assistant or Account Tech) needed to continue the in-sourcing of accounting functions. The cost will be off-set by anticipated reductions in costs from outside contractors.
- The Proposed 2019 Budget shows a projected 2019 year-end balance of approximately \$69,000 which is within the desired range for an operating capital reserve of 3-6 months of expenses.

Parks & Rec Fund 15

- Added in 2019 Meridian Ranch Recreation Center staff per approved transition plan. However, the Facility Maintenance Supervisor position is funded in Water Fund 40 where the facility maintenance function has historically been provided. Some of the facility maintenance labor costs eventually need to be charged to the Parks & Recreation Fund 15.
- Added in 2019 one Irrigation Technician and vehicle as a result of increased irrigated landscape areas due to continued land development, and need for increased supervision of landscape maintenance contractor
- Added in 2019 expenditures and revenues associated with District special events and Falcon Freedom Days which were previously budgeted in General Fund 10
- Parks & Recreation Fund 15 is not being charged for use of water for the Recreation Center and for landscape irrigation, the water system's two largest customers. The General Manager recommends a multi-year program of gradually increasing water billings to Parks & Rec to eliminate this ongoing subsidy by the Water Fund 40 and to reduce the "lost water" (produced water that is not generating revenue through billings). Current estimates are that the Recreation Center uses annually approximately \$40,000 worth of water and the landscape irrigation uses annually approximately \$100,000 worth of water.
- The Proposed 2019 Budget includes a repayment of the loan from the Sewer Fund 40 for the repair of the Rec Center Gym roof. It also includes a %5 contribution to the emergency repair reserve.

- The Proposed 2019 Budget assumes fee increases that will produce a 9% increase in service fee revenues. It also assumes program fee revenues at the Recreation Center equal to the average of the last 3 years of program fees reported by the YMCA.
- Parks & Recreation Fund 15 is depending on a \$750,000 contribution from the Sewer Fund 50 to balance the 2019 Budget. With this contribution, the Proposed 2019 Budget shows a projected year-end balance of approximately \$300,000 which falls short of the targeted level for a healthy operating capital reserve (should be \$1/2 million to \$1 million).
- The Proposed 2019 Budget, in comparison to earlier editions, has some reduced expenditures in some areas that are very popular with residents. These reductions were made to help reduce the required subsidy from the Sewer Fund 50. The Board may want to consider restoring some of these cuts. They are summarized below:

Item	11/15/18 Proposed Budget	12/5/18 Proposed Budget	Reduction
Plant Replacements	30,000	15,000	15,000
Mulch/Rock	135,000	90,000	45,000
Conc & Drainage Repairs	35,000	15,000	20,000
Total			<u>80,000</u>

Capital Fund 30

- The Proposed 2019 Budget uses the Capital Fund 30 for capital projects. Fund 30 is now set up to handle a multi-year capital improvement program. The 2019 proposed capital projects are funded by a combination of contributions from the other funds and by 2018 bond proceeds.
- The proposed Buildout Capital Improvement Program and Funding Master Plan expected in 2019 will guide the preparation of a multi-year Capital Improvement Program. The Proposed 2019 Budget is structured to provide the necessary budgetary tool to implement a multi-year Capital Improvement Program. In anticipation of the Buildout CIP and Funding Master Plan, the Capital Fund 30 Budget identifies a number of future capital projects that have not yet been programmed or funded.

Water Fund 40

- The Proposed 2019 Budget includes replacement of one vehicle with over 290,000 miles.
- The Water Fund is showing an operating surplus of approximately \$1 million for 2019. After contributions to the emergency repair reserve and rate stabilization reserve, the projected 2019 year-end fund balance is approximation \$1 million which falls within the target amount for a healthy operating capital reserve.

Sewer Fund 50

- The Proposed 2019 Budget includes replacement of one vehicle with over 235,000 miles.
- The Proposed 2019 Budget shows an operating surplus of approximately \$1.5 million. The Sterling Tap Fee revenues should be used for paying for future capital projects, but are actually being diverted to subsidize the Parks and Recreation Fund 15. After contributions to the emergency repair reserve and rate stabilization reserve, the Proposed 2019 Budget shows a projected 2019 year-end

balance of over \$600,000 which is approximately \$100,000 over the target amount for a healthy operating capital reserve.

Emergency Repair Reserve

- The Proposed 2019 Budget results in a year-end balance of the emergency repair reserve of approximately \$1 million. The recommended target level for emergency repair is \$2 million.

Rate Stabilization Reserve

- The Proposed 2019 Budget results in a year-end balance of a new rate stabilization reserve of \$600,000. The recommended target level for a rate stabilization reserve 10% of operating revenues, or about \$700,000.

Budget Policy Items Recommended by the General Manager and included in the 2019 Proposed Budgets:

MRMD and Ranch Subdistrict

1. Approve establishment of new Ranch Subdistrict Fund(s)

MSMD

2. Approve a fee schedule for 2019 (Proposed 2019 Budgets and Fee Schedule provides 2 alternate approaches for fee increases)
3. Approve proposed budgeted amounts for salary/wage adjustments
4. Approve recommended new administrative assistant/acct tech in General Fund 10
5. Approve recommended new irrigation technician position and vehicle in Parks & Recreation Fund 15
6. Approve recommendation to replace two old vehicles, one in Water Fund 40 and one in Sewer Fund 50
7. Approve establishment of new rate stabilization reserve and target balance of 10% of annual revenues
8. Approve \$2,000,000 target balance of emergency repair reserve
9. Approve the Proposed 2019 Budget contributions to reserves as shown in the Proposed 2019 Budget