

**RESOLUTION No. 2024-2332**

**A RESOLUTION FIXING AND APPROVING THE BUDGET  
FOR THE FISCAL YEAR 2024-2025**

**LAS GALLINAS VALLEY SANITARY DISTRICT**

**WHEREAS**, the General Manager and Administrative Services Manager have prepared the proposed budget for the Fiscal Year 2024-2025; and,

**WHEREAS**, the members of the Sanitary Board of Directors of the Las Gallinas Valley Sanitary District have studied that proposed budget and made amendments thereto;

**NOW, THEREFORE BE IT RESOLVED** by the Sanitary Board of the Las Gallinas Valley Sanitary District that the general fund allocation approved for Fiscal Year 2024-2025 is \$41,127,060 including an allocation of \$19,915,828 for capital improvements and \$ 4,506,819 for debt service.

**BE IT FURTHER RESOLVED**, by the Sanitary Board of the Las Gallinas Valley Sanitary District, Marin County, California, as follows:

1. That balances on hand as of June 30, 2024, and in the funds of the District, shall be reserved for use by the District during the Fiscal Year 2024-2025.
2. That the budget for said District for the Fiscal Year 2024-2025 heretofore presented to this Board, a copy of which is hereto attached as Exhibit A and by reference incorporated herein, be hereby approved.
3. That the General Manager of this District shall be, and is hereby, authorized and directed to file a certified copy of this resolution with the budget of this District thereto attached, with the Board of Supervisors and the Treasurer of Marin County.

\* \* \* \* \*

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly and regularly passed and adopted by the Sanitary Board of the Las Gallinas Valley Sanitary District, Marin County, California, at a meeting thereof held on June 20, 2024, by the following vote of the members thereof:

AYES, and in the favor thereof, Members: *Clark, Murray, Nitzberg, Roberts*  
NOES, Members: *None.*  
ABSENT, Members: *Yezman*  
ABSTAIN, Members: *None.*

  
\_\_\_\_\_  
Teresa L. Lerch, Board Secretary  
Las Gallinas Valley Sanitary District

APPROVED:



(seal)

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Craig K. Murray, President  
Las Gallinas Valley Sanitary District



# Exhibit A

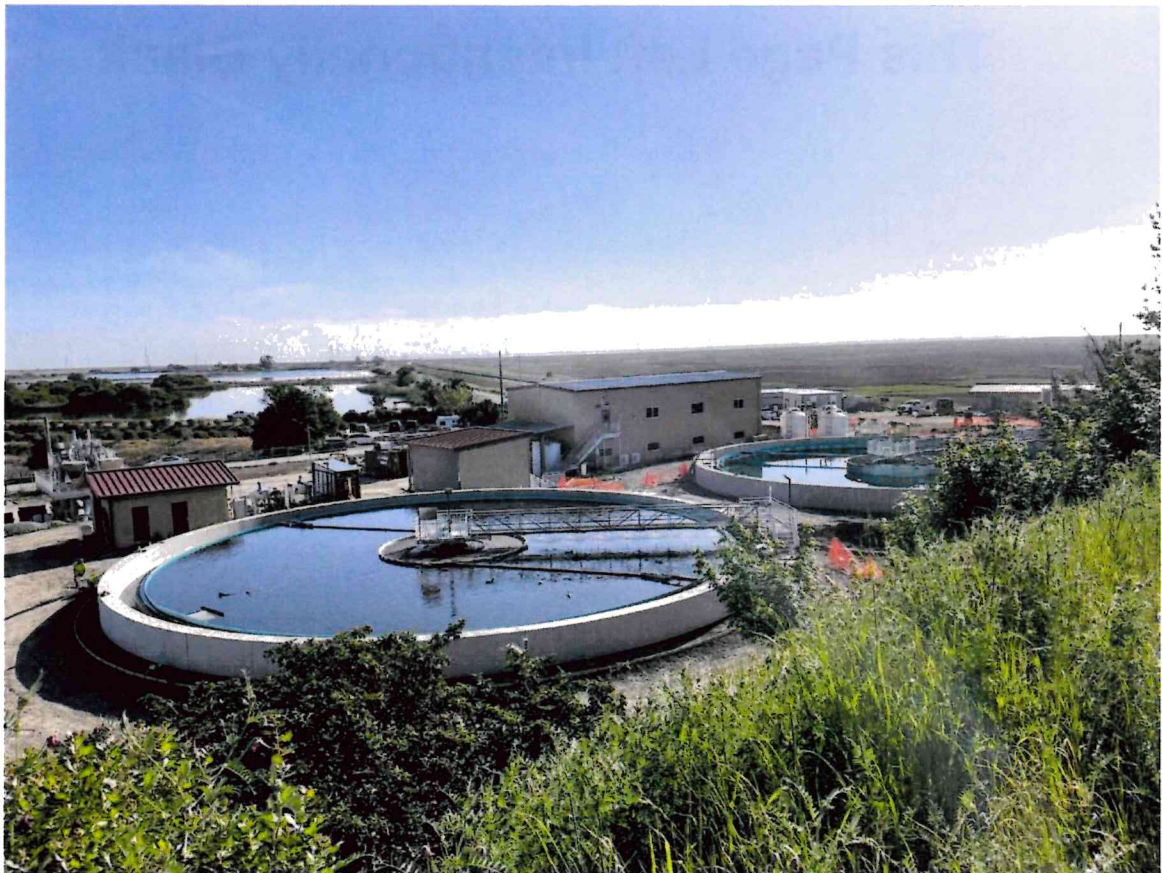
Las Gallinas Valley Sanitary District  
2024-2025 Budget

# **Las Gallinas Valley Sanitary District**

## **Proposed Budget**

**Fiscal Year 2024-2025**

**June 20, 2024**





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101 Lucas Valley Road, Suite 300  
San Rafael, CA 94903  
Tel.: 415-472-1734  
Fax: 415-499-7715  
www.LGVSD.org

**MANAGEMENT TEAM**  
General Manager, Curtis Paxton  
Plant Operations, Mel Liebmann  
Collections/Safety/Maintenance, Greg Pease  
Engineering, Michael P. Cortez  
Administrative Services, Dale McDonald

**DISTRICT BOARD**  
Megan Clark  
Craig K. Murray  
Barry Nitzberg  
Gary E. Robards  
Crystal J. Yezman

June 20, 2024

To the Board of Directors of the Las Gallinas Valley Sanitary District,

The management staff of the Las Gallinas Valley Sanitary District ("District or LGVSD") is pleased to present the Proposed LGVSD Budget for the upcoming 2024-2025 fiscal year. The Proposed budget includes the latest data on revenue projections, expense forecasts, debt service requirements, reserve funding, and capital outlay expenditures.

District Policy F-40-10 (Budget Preparation) requires that the General Manager and Administrative Services Manager prepare an annual budget proposal. The proposed annual budget, as amended by the Board during its review, shall be adopted at a regular meeting in June.

## **SUMMARY**

The District must provide enough revenue to cover the cost of providing sanitary sewer collection, treatment, and recycled water service including the costs of acquisition, construction, reconstruction, maintenance, repairs, replacement and operation of the sanitary sewer systems and the payment of principal and interest on bonds or other debt instruments issued for the construction or reconstruction of the sanitary sewer systems. Operating revenue includes sewer service charges collected, revenue from the production of recycled water, and revenue from permit and inspection fees related to development-related sewer system improvements of the collection system. Non-operating revenue, which supplements operating revenue, includes property taxes, interest, franchise fees, and other pass-thru reimbursement revenue. Capital contributions, grants, and the utilization of bond funds and reserves round out the revenue sources for the District. The District is anticipating \$41,127,060 in total funding for 2024-2025 with \$25,568,312 coming from revenue and \$15,558,748 from prior year capital carryover, reserve funds, and unrestricted cash.

Operations and Maintenance ("O&M") expenses are anticipated to increase over the prior year actuals by \$1,138,600, or 8.97%. O&M expenses means the reasonable and necessary expenses paid or incurred for maintaining and operating the collection, treatment, and recycled water systems ("Systems") of the District, determined in accordance with generally accepted accounting principles ("GAAP") that the Governmental Accounting Standards Board ("GASB") established for and is used by state and local governments in the United States. O&M expenses include all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the systems of the District in good repair and working order. These include all administrative costs of the District that are charged directly or apportioned to the operation of the systems, such as salaries and wages of employees, overhead, the cost of permits, licenses, and charges to operate the system and insurance premiums. Excluded from O&M expenses are depreciation, replacement, obsolescence charges, reserves, and amortization of intangibles. O&M expenses, including employee salaries and wages, comprise 33.62% of the budget.

Debt service requirements are \$4,506,819 and include the 2017 Revenue Bonds and 2019 IBank loan. Debt service comprises 10.96% of the budget. The next debt to be paid off is the Municipal Finance Corporation 2005 Certificate of Participation Bond in 2026.

New Reserve funding of \$2,477,793 is proposed and set aside to cover scheduled, routine, and unscheduled expenses that would otherwise be drawn from the General Fund. Reserve funds may also be used for large-scale projects and improvements that are expected to happen in the future, such as the construction of new operations and laboratory buildings at the treatment plant and the John Duckett Pump Station and Trunk Sewer project. The District maintains four reserve funds and four restricted funds. Restricted funds are monies set aside for a particular purpose and \$401,120 in additional funding is proposed with the budget and includes funding for the Recycled Water Capital Repair and Replacement fund required under agreement with Marin Municipal Water District ("MMWD"). Reserve funds are permanently restricted to that purpose and cannot be used for other expenses. Reserves Policy F-50 establishes and explains the purpose and reasons for each of the reserves established, along with target thresholds. Both the reserve funds and restricted funds are included in the reserve funding total, but they are different in that while the board can reallocate funds from reserves, while the restricted funds, such as Captains Cove and Marin Lagoon, serve a specific purpose and therefore their use is controlled by State law and agreements in place for providing service. Reserve and restricted funding comprise 7.0% of the budget.

The Capital Outlay effort for 2024-2025 remains the primary driver of expenditures for the District comprising 48.43% of the total budget. The total capital outlay for the Capital Improvement Program ("CIP") for Fiscal Year 2024-2025 is \$19,915,828. During the development of the CIP, review of strategic initiatives established by the Board, along with anticipated implementation of the Integrated Wastewater Master Plan indicate that capital improvements will remain the primary expense driver for the District for at least the next 10 years. The good news is that by adding to or improving District facilities the public materially benefits from the value and useful life of the assets of the District.

Unused prior year Capital Outlay Carryover funds is the primary funding source for most capital projects in Fiscal Year 2024-2025. \$12,255,708 of carryover funding is allocated for use on capital projects in the 2024-2025 budget.

Sincerely,



**Curtis Paxton**  
General Manager



**Dale McDonald**  
Administrative Services Manager

# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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### REVENUE

#### Operating Revenue

The District is entering its second year of a four-year Sewer Service Charge (“SSC”) rate plan. A rate increase of \$124 annually for Single Family Residential (“SFR”) users is factored into the budget. The rate increase will provide \$2,183,463 in additional revenue over last year. Non-residential SSC revenue is expected to decrease slightly as non-residential customers used less water during the measurement months resulting in lower SSCs.

Recycled water revenue is the estimated cost of providing water to Marin Municipal Water District (“MMWD”) and North Marin Water District (“NMWD”) based on the projected recoverable costs for the year. Projections for revenue are based on the percentage of actual recycled water provided to MMWD and NMWD. Revenue is expected to increase slightly over the prior year’s actuals but remain below last year’s budgeted amount. The District’s Treatment Plant is utilizing more recycled water which lowers the percentage used by MMWN and NMWD respectively, resulting in lower operating cost recovery.

Inspections, permits, and application fees reflect projected revenue from fees related to the Private Sewer Lateral Inspection program, lateral repairs and replacement, and applications for engineering review. The revenue is based on historical sales and permit data for properties within the District between 2019 and 2023. Permits revenue is expected to increase as private sewer lateral replacements are undertaken by property owners whose laterals are connected to main sewers included in the District’s Sewer Main Collection System Rehabilitation Program 2024 as a credit against SSC revenue.

#### Non-Operating Revenue

Secured property taxes are calculated based on the value of real property, land, and personal property, such as structures, located upon real property. Secured property is taxed at a general rate of 1% of the assessed value. Property tax projections for 2024-2025 are expected to be slightly higher than 2023-2024 actuals. For 2024-2025, property tax revenue is budgeted at \$1,296,090 and reflects a 4% increase over projected 2023-2024 receipts. The District has historically identified secured property taxes as general fund revenue since the State puts no limitations on its use. It can, therefore, be considered a general fund that can be used for any legal purpose allowed by District Code and State law. The Low-Income Sewer Rate Assistance Program is funded from secured property tax revenue, and a total of \$25,000 has been allocated to the program in 2024-2025.

Prior Secured taxes, Supplemental Property Tax Assessments, and Home-Owner Property Tax Relief (“HOPTR”) funds are projected to rise 3.91% over last year. These are collected by the County with and at the same time as the secured property taxes and SSC assessment. They are reported separately as required by the State Controller’s Office and auditing standards. Both the 1% annual Ad-Valorem tax increase for most property owners and the reassessment of property value upon sale of homes are factored in the reserve assumptions.

Educational Revenue Augmentation Funds (“ERAF”) are determined by State statute. Special districts are allocated a certain amount of property tax revenues; however, a portion is shifted from counties, cities, special districts, and redevelopment agencies to K-12 schools and community colleges. The District is subject to ERAF I and II tax shifts, which are specified by the State, using population and other factors. These factors are adjusted annually per the incremental growth rate in assessed property tax values. Staff has budgeted \$480,510 for 2024-2025 using the foundational basis from the ERAF revenue received in 2023-2024 and subtracting \$15,124 in annual loss under the California Governor’s ERAF budget trailer bill submitted for the State’s 2024-2025 fiscal



# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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year. Of note, Senate Budget Subcommittee 1 on Education recently rejected the Governor's ERAF proposal. The issue remains fluid at the State level with any loss in excess ERAF funding due dependent on charter school funding ruling and action by the legislature and Governor.

The Solid Waste Franchise fee revenue is forecast based on the anticipated Marin Sanitary Service rate increase adopted in January of each year. The revenue is based on the agreement with the solid waste franchisee, Marin Sanitary Service. Higher rates due to costs related to implementation of SB 1383, the State's organics recycling law, were adopted in January 2024 which has increased both revenue and pass thru expenses related to the solids waste collection, recycling, and organic waste programs. An incremental increase in Franchise Fee revenue is forecast for January 2025 and is in alignment with the recent cost-of-service Franchise Agreement study completed in March 2024.

Interest on reserves, which are invested in the Bank of Marin, the Local Agency Investment Fund with the State of California, and two additional pooled investment accounts, California Cooperative Liquid Assets Security System (California CLASS) and California Asset Management Program (CAMP), are expected to yield lower returns as the interest rate remains flat after increasing last year. As the District uses accumulated funds for construction projects, the earnings are projected to decline in 2024-2025.

The Private Sewer Lateral Assistance program began in July 2012. The budget reflects the projected direct repayments and annual payments to be collected on the tax roll in 2024-2025 from property owners that took advantage of the program to have the District pay for their sewer lateral repair or replacement. The District anticipates a spike in property owners taking advantage of the program due to the impact of the District's Sewer Main Collection System Rehabilitation Program of 2024, resulting in additional expenses to the District this year with recovery of those expenses to take place over the next 10 years.

The Miscellaneous revenue account allows various incidental or one-off payments to be deposited into the District's operating account. Staff does not forecast a budget in this category, as they are difficult to project, but has included a small placeholder based on last year's budget to assist with future accounting if needed.

### **Capital Contributions / Capacity Related Revenue**

Annexation, Capital Facilities Charges ("CFC"), and Connections Fee activity for remodel permits and Accessory Dwelling Units ("ADUs") has increased from prior years. CFC's can be paid over 2 years as the project is developed. While the District is substantially built out and the pace of development is difficult to predict, staff are aware of a few large-scale development projects which are anticipated to be approved for connecting to the sewer system in 2024-2025. Staff is conservatively budgeting \$320,420 in receipts for capital facility charges for 2024-2025 primarily the result of the two large projects currently under development.

State and local governments are looking at laws to allow additional expansion of ADUs to create more affordable housing and provide flexibility for families who wish to build a second unit on their property. ADUs are normally not subject to capacity or connection fees but can be billed a SSC depending on the size and number of units. A capacity fee study by HDR Engineering was completed in 2022 which, based on the cost-of-service for connecting to the system, adjusted the CFCs that can be imposed on development. Annexation and development fees are separate from the CFC connection fees. The interest income for this category is for existing CPC funds held on deposit, which must be expended only for capital projects that increase capacity to either the collection system or treatment plant.

# Las Gallinas Valley Sanitary District Proposed Budget – 2024-2025

Marin Municipal Water District (“MMWD”) entered into an agreement in March 2017, to buy into the existing capacity of the Recycled Water Treatment Facility as well as participating in the debt service of the 2017 Revenue Bonds associated with the estimated cost for the expansion of the facility. Through May 2023, the MMWD buy-in and debt service funds were allocated to the Capital Reserves for their shared cost of the expansion project. Now that the project is completed, the buy-in and debt service payments received from MMWD will be allocated to undesignated Capital Reserves for future use by the District. In addition, per the agreement, MMWD and LGVSD will meet after Notice of Completion is filed to review the construction costs of the projects and adjust the buy-in amount based on actual final costs of the project. The Marin Municipal Water District Inter-Governmental capital contribution revenue line item includes \$242,000 in 2024-2025 as a placeholder for anticipated revenue from the buy-in adjustment.

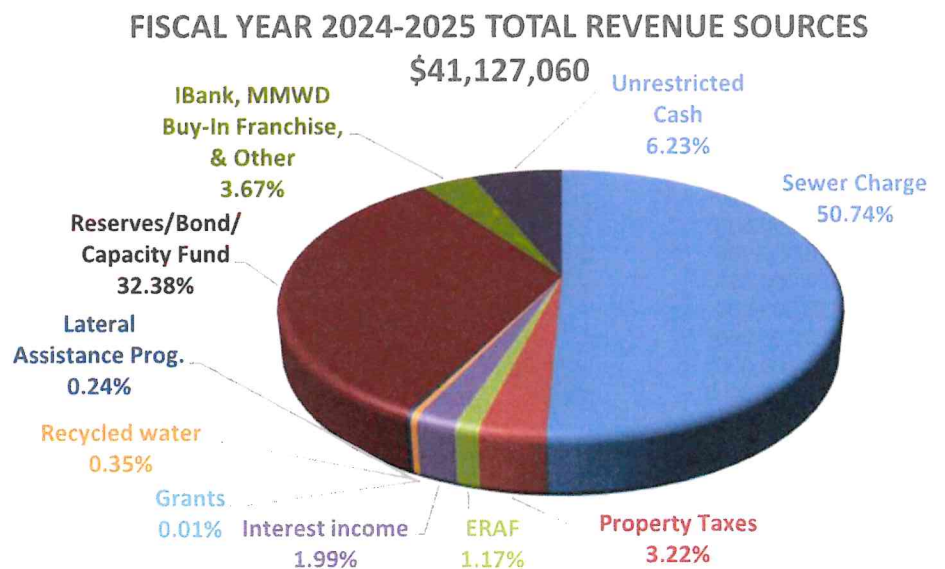
There is only one pending disbursement of \$567,760 from the IBank loan remaining, which will be disbursed once the Notice of Completion for the Secondary Treatment Plant Upgrade and Recycled Water (“STPURWE”) project is filed. The remaining funds will be returned to the general fund as STPURWE expenditures have already been paid. The disbursement budgeted is reflected in the Other category on the charts on the following pages.

Federal and State grants may become available for wastewater infrastructure projects, but no specific grant has been identified let alone secured. The District has contracted with a consultant to pursue alternative funding and is in process of hiring a staff person to pursue and manage grants, and is collaborating with partner agencies, such as North Bay Water Reuse Authority, to investigate grant opportunities. It is wise for the District to design construction-ready projects to take advantage of any grants that become available, but it would not be prudent to anticipate revenue from grants at this time. A Zero Waste Marin reimbursement grant of \$5,000 is anticipated in 2024-2025 to offset the District’s cost for various waste reduction laws and support projects that move Marin’s communities to Zero Waste.

## Utilization of Bond Funds and Reserves

The Private Sewer Lateral (“PSL”) Assistance Program has continued to collect reimbursements for loans made to property owners. The program has become self-funded, with sufficient revenue coming from repayment by property owners to fund assistance to new property owners wishing to take advantage of the program. The balance in this program as of June 30, 2024 is anticipated to be \$411,350. Anticipated revenue of \$100,000 will help offset the \$187,800 in budgeted expenses for new assistance payments in 2024-2025.

The District has previously budgeted for projects that have not yet begun or are in the middle of construction, which has created carry-over capital funding that is available for



# Las Gallinas Valley Sanitary District Proposed Budget – 2024-2025

continuing projects. These projects are included in the Capital Outlay budget. Any unused funding allocated to these projects will carry forward into 2024-2025. A total of \$12,255,708 of prior-year capital carry-over is budgeted for use in 2024-2025.

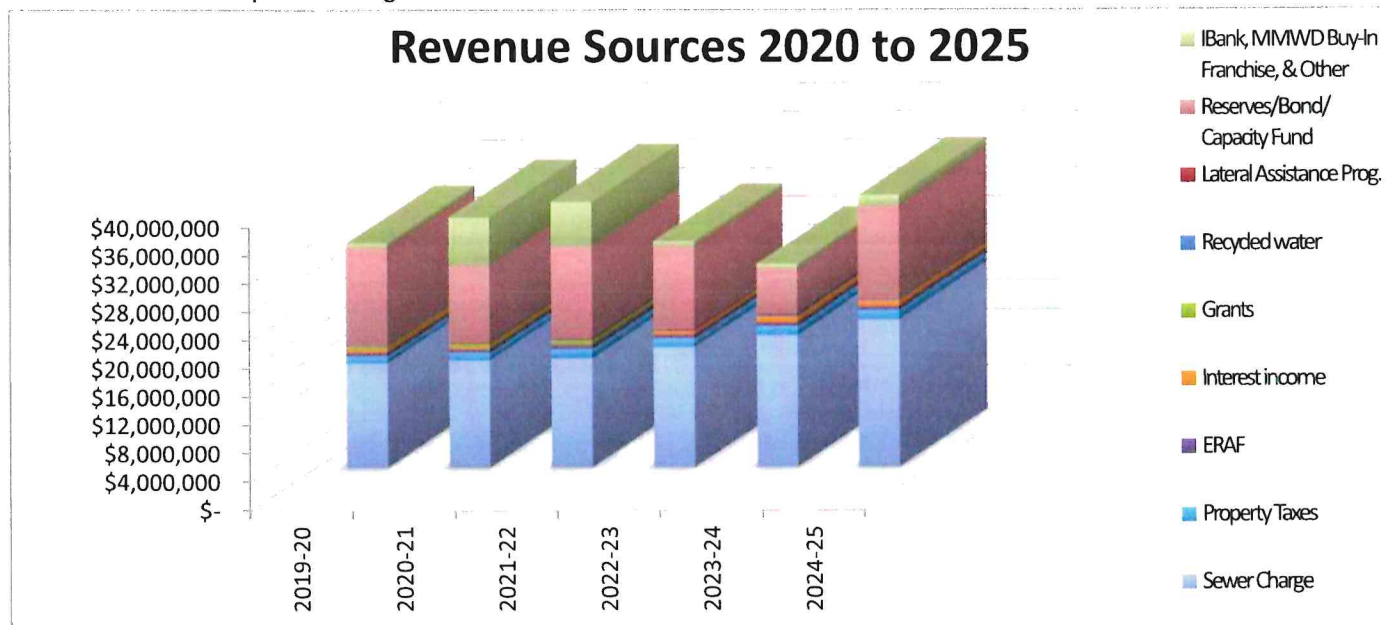
Capital Reserves used for the STPURWE Project were depleted by May 2023. The Marin Municipal Water District (“MMWD”) Buy-In and their share of debt service payments collected for the STPURWE project and held in this reserve was used towards the completion of the project. The projected Capital Reserve beginning balance for 2024-2025 of \$9,318,529 includes \$6,000,000 designated for the Laboratory/Education Center/Board Room project which is one component of the operations and administration building projects. Additional funding and reallocation from undesignated capital reserves will bring the designated ending balance for the building projects to \$9,000,000 and the undesignated reserves to \$1,500,000. There is no planned use of these funds in 2024-2025.

Transfers from the Capacity / Connection Fee Facilities Fund, which has been growing as fees for new or additional connections to system are paid by developers, can be used to pay for collection system and plant capacity improvements necessary to serve those connections. There is no planned use of these funds budgeted for 2024-2025.

Transfers from the Marin Lagoon and Captains Cove restricted funds can be used towards repayment of operating and capital costs, including capital replacement and Board authorized capital projects, incurred for Marin Lagoon and Captains Cove collection systems. A total of \$53,800 is budgeted for 2024-2025.

The Recycled Water Capital Repair and Replacement fund established in May 2023 is expected to have an ending balance of \$17,520 as of June 30, 2025. Both LGVSD and MMWD are required to each contribute 10% of their portion of recycled water operating and maintenance expenses to this fund annually.

The graph below shows the composition of District revenues for the past five fiscal years plus the projected 2023-2024 and Proposed budget for 2024-2025.



# Las Gallinas Valley Sanitary District Proposed Budget – 2024-2025

## EXPENDITURES

The Government Accounting Standards Board (GASB), which is recognized as the official source of GAAP for state and local governments, establishes modified accrual accounting standards. Modified accrual accounting is used and accepted by governmental agencies because they focus on current-year obligations. Las Gallinas Valley Sanitary District Policy F-40-20 (Basis of Budgeting) required that all budgetary procedures conform to state regulations and generally accepted accounting principles. As such, the District uses a modified accrual basis of accounting for reporting on budgeted versus actual expenditures, with the following exceptions:

- Grant revenues are budgeted on a modified cash basis rather than an accrual basis.
- Fixed assets are depreciated for some financial reporting but are fully expensed in the year acquired for budgetary purposes.

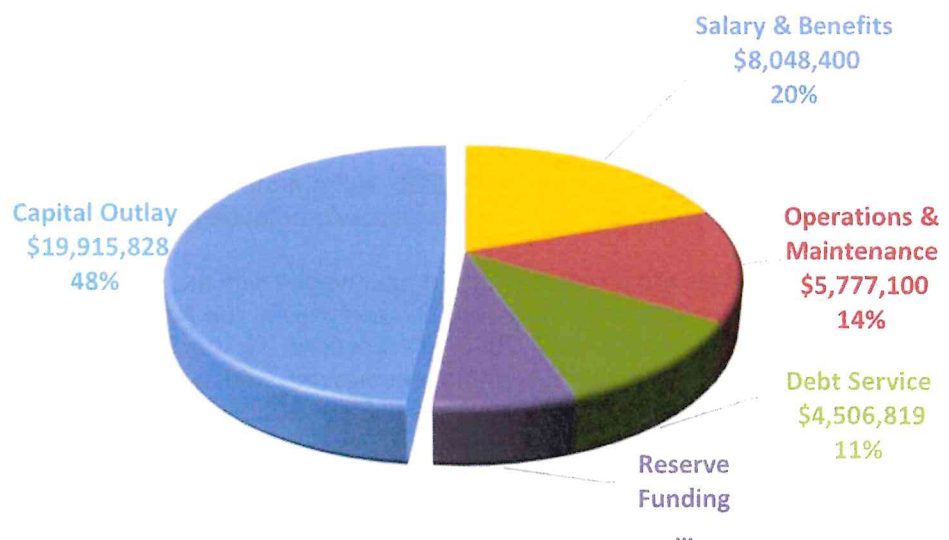
Modified accrual accounting is an alternative bookkeeping method that combines accrual-basis accounting with cash-basis accounting. It recognizes revenues when they become available and measurable and, with a few exceptions, records expenditures when liabilities are incurred.

The General Manager and Administrative Services Manager are responsible for development of internal accounting policies and procedures necessary to implement financial policies and to ensure that internal controls, processes, and procedures follow the California State Controller’s Office Internal Control Guidelines pursuant to CGC section 12422.5 and are adequate to protect the finances of the District.

Expenditures of the District are broken down into the following categories:

1. Operations and Maintenance Expenses (*including salary & benefits*)
2. Debt Service
3. Reserve Funding
4. Capital Outlay

### PROPOSED BUDGET FY 2024-2025



The District’s largest expenditure category is Capital Outlay followed by Operations and Maintenance. The operations and maintenance expense, debt service, reserve and restricted funding, and capital outlay financials have been reviewed and comments on key items of interest are being provided to the Board to facilitate discussion. The Board can review its reserve policy and establish reserve funding targets for the Operating & Rate Stabilization Reserve, Emergency Repair, Capital Reserves, and Vehicle and Equipment Reserve as part of the budget process.

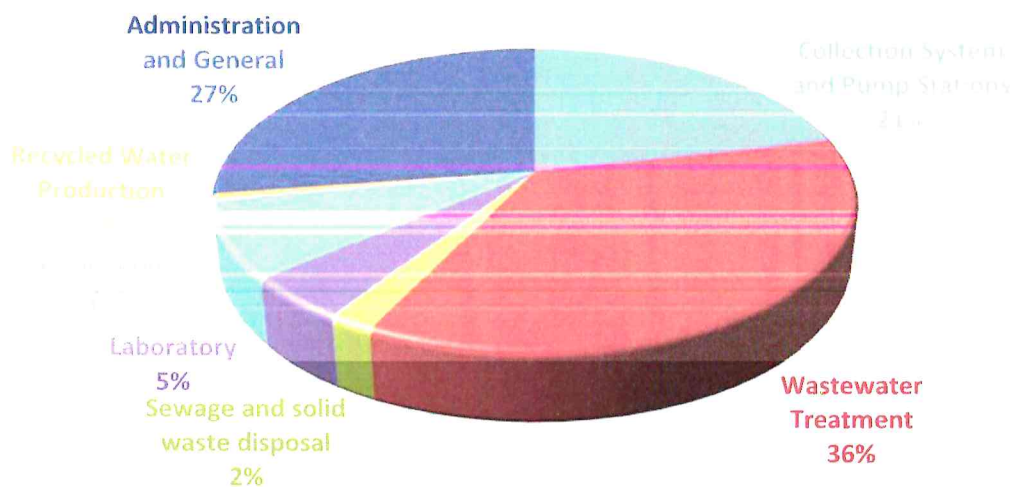
# Las Gallinas Valley Sanitary District Proposed Budget – 2024-2025

## Operations and Maintenance Expenses

### Employee Expenses:

Employee wages and benefits have risen over recent years as staff positions have been added. The Proposed budget shows actual change over 2023-2024 is projected to be 11.5%. A 3% cost-of-living adjustment effective July 1, 2024 is factored into the budget. The budget includes funding for one additional Full-Time Equivalent (“FTE”) position proposed for 2024-2025, which may consist of two part-time staff, that would be created for the “Operator-In-Training” (“OIT”) apprenticeship program to support the treatment plant be developed in late 2024. The budget for 2024-2025 is based on the District maintaining full-staffing levels throughout the year and includes adding \$100,000 for the OIT program and for contract personnel to support the engineering department later this year.

O&M EXPENSE BY FUNCTION



Payroll taxes, group life insurance, CalPERS retirement, Health benefits, Dental, and Vision insurance are projected to increase over prior year actuals as new employees are hired to fill approved and proposed positions.

CalPERS contributions are projected from regular wages with the published employer contribution rate of 16.02% for classic members (up slightly from 15.95%) and 7.87% (up from 7.68%) for PEPRA in 2024-2025. Staff who became CalPERS members after 2013 are covered by the PEPRA plan which requires lower retirement contributions by the District. PEPRA employees are required to contribute 8% towards their retirement per MOU. The District’s share of CalPERS contributions in 2024-2025 is projected to increase 1.5% over prior year actuals.

Health insurance is projected based on the known rates for July through December 2024 and the application of an estimated health insurance trend rate of +1% for the remainder of 2024-2025. CalPERS Health will set the coverage rates for 2025 in the summer of 2024. The expense also reflects costs associated with one new proposed position for 2024-2025. Other Post-Employment Benefits (“OPEB”) retiree health benefits for prior employees and pre-funded expenditures for current employees based on the GASB 75 actuarial valuation measurement date June 30, 2022 are included under health benefit expenses.

# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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The Auto Allowance is a vehicle allowance benefit for management employees who have this benefit included in their contracts. Managers who opt to use a District vehicle are not entitled to the auto allowance. A cost-of-living adjustment for the vehicle Auto Allowance will be made on July 1, 2025.

### **Proposed New Program and Position:**

Board Financial Policy F-40-40 grants exclusive authority to the Board to increase the number of authorized staff at the District. Historically, new staff positions are considered as part of the budget process. After a review of operational needs management is recommending the creation of an “Operator-In-Training” (“OIT”) apprenticeship program and the addition of one FTE position, increasing the FTE positions at the District from thirty-one to thirty-two. The following program is proposed:

#### *OIT Program and Plant Operator-in-Training*

An OIT program would allow management to create either one full-time or two part-time positions to work at the Las Gallinas Valley Sanitary District Treatment Plant, learning new skills and helping existing operators and lab staff with the operation of the plant. Both Central Marin Sanitation Agency and Napa Sanitation District have OIT programs. The first-year cost to implement the program is estimated to be \$60,000. Beginning in 2026, the annual cost of the program would be between \$120,000 and \$150,000 depending on the candidate’s qualifications, whether they are full or part time, whether they qualify for the District’s CalPERS retirement plan, and whether they take advantage of the District’s paid CalPERS Health family benefit option. There may be opportunities to offset some costs through educational internship/apprenticeship funding sources.

The job classifications for the Plant OIT and Lab Analyst-in-Training already exists and the positions are on the District’s Pay Schedule. Upon Board approval of the budget and authorization to increase staff count, management can begin designing the program and plan for hiring for the apprenticeship program in late 2024.

### **Insurance:**

Workers compensation insurance is based on projected wages for 2024-2025, plus the addition of full-time positions being filled, and a decrease in the experience modification factor from 0.89 to 0.70 based on the District’s recent claims history. The Workers Compensation Insurance Rating Board (WCIRB) continues to use the simplified Experience Rating Formula which removes the first \$250 of each claim for the calculation. The decrease in the projected 2024-2023 actuals is attributable to the lower experience modification factor for the July 1, 2023 to July 1, 2024 period.

Pooled liability insurance includes general liability and mobile equipment, billed separately. The general liability insurance premium period is based on a calendar year and the mobile equipment on a fiscal year basis. The liability insurance is the larger premium for which the yearly cost is known based on the current billing, and a modest increase of 3% over 2023 has been calculated for liability insurance. The insurance invoice for the July 1, 2024 to June 30, 2025 term has not yet been received.

Property insurance is reported on the same line item with general liability. Since 2018, significant events have driven the property insurance market to tighten substantially. Prior events in 2020 and 2021 have further aggravated market conditions and the firming trend is expected to continue. Property insurance rates are forecast to increase 6% or an additional \$10,320 because of market conditions. In addition, the new construction values related to the STPURWE Project were added to the insured Schedule of Values (SOV) which will increase the Total Insurance Value by an additional 7.5%, resulting in an additional \$12,900 premium increase at renewal in 2024-2025.

# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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### Repairs and Maintenance:

Most repairs and maintenance expenses are coordinated by the Maintenance Supervisor, but actual expenses related to assets are allocated to the respective financial class Collection System, Pump Station, Treatment Plant, or Recycled Water for proper accounting. Management work together to authorize and approve expenses. Inflation and logistic delays have continued to have an impact on the costs of parts and services in 2024 but are stabilizing. It is anticipated that continued inflationary factors will influence costs into 2025 with an increase in the range of 3% to 6% over current costs. The Repair and Maintenance Proposed budget for 2024-2025 will be under the prior year's budget by \$153,900 (-20.7%) but over the projected actual expenses by \$180,763 (31.3%). The primary drivers of increased maintenance costs in 2024-2025 are:

- Algae control at the reclamation storage pond is expected to cost \$80,000. This is periodically performed and is not an annual expense. Other incidental maintenance costs include the building and grounds maintenance which includes having an outside firm perform yard work on the main building landscape, and includes expenses related to maintenance work performed by the District's skilled maintenance employees. Monthly Jefferson Security Fire Suppression monitoring is also included under the repair and maintenance budget.
- Bio-Wheel chain sprocket units and additional pumps will be ordered as inventory for emergency pump replacements and Bio-Wheel repairs. \$50,000 has been added to the Capital Repair and Replacement budget for the pumps and \$50,000 for the Bio-Wheel chain sprocket units. Capital repairs/replacements consist of items that are long-lived or life extending in nature but are not included in the capital improvements budget. They are either items that are capital in nature, but the replacement/repair is not anticipated as part of the initial capital outlay budget or items such as small pumps and equipment with a cost under the \$5,000 capitalization threshold.

### Other Operating Expenses:

Other operating expenses include supplies and contracted services to support the operations at the treatment plant, pump stations, and administration of the District.

- Chemical costs make up the largest percentage of supplies required by the District. The amount budgeted for supplies and small tools is \$850,200, and of that \$633,800 is for chemicals. The District is a member of the Bay Area Chemical Consortium ("BACC") which assists the District in obtaining the most competitive unit pricing. Unit prices beginning July 1 for sodium hypochlorite will increase 12.86% and sodium bisulfite will decrease 11%, offsetting each other and resulting in a modest increase in chemical costs of \$17,000 over the current year.
- Outside contracted services include services related to personnel and HR services, guard service, labor relations, janitorial services, security patrols and alarm monitoring, portable restroom rentals, alternate grant funding studies, and other incidental outside operating expenses.
- Sludge injection and land disposal of biosolids is normally an operational expense of the wastewater treatment process. During the first year of the Biosolids Program Monitoring Research project, land application was performed as part of the biosolids feasibility study and sludge was injected into the District's dedicated disposal site. The associated costs related to land disposal of solids, required as part of the ongoing study, was charged to the Biosolids Program Monitoring Research project. As we enter the second year of the study, a call for bids for Biosolids Land Application Services for 2024 went out. Coordination with the USEPA Research Team is a small component of the bid requirements with the cost

# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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anticipated to be only a fraction of total project costs. The Proposed budget includes \$380,000 as an operational expense based on the prior year's cost of sludge injection and land disposal.

- Consultants include costs for climate assessments, Canada goose project and reporting to NPDES, MMWD water data review and rate setting assistance, recruitment, labor relations, and for organizational and Board development.
- Feasibility studies that are not capital improvement or capacity related are treated as an operational expense. Unspent funding of \$64,000 for the North Bay Water Reuse Authority (NBWRA) drought contingency and sea-level rise resilience studies have been carried forward to fiscal year 2024-2025. No additional operational feasibility studies have been identified for 2024-2025, but once the Integrated Wastewater Master Plan is complete, management expects feasibility studies will be undertaken. A placeholder of \$10,000 is included for an operational study in the Proposed budget.
- The financial services budget includes \$60,000 to contract with an independent financial advisor to identify debt financing and/or bond issuance options for the John Duckett Pump Station and Multi-Use Laboratory building construction projects. Additional financial services include actuarial valuations, sewer rate studies, and arbitrage compliance services.
- The Private Lateral Rehabilitation Assistance Program ("PLRAP") budget has been increased to \$187,800. The PLRAP was established to help property owners pay for repairing or replacing their lower and upper private sewer lateral. Under this program, the District will advance the property owner up to \$10,000 to be repaid semi-annually, over ten years at flat 2% interest. In the upcoming months, the District will be repairing or replacing multiple sewer main line segments as part of its Sewer Main Collection System Rehabilitation Program, which will affect 100-150 residential and commercial parcels depending on the scope of work. It is expected that 10% of these property owners would take advantage the PLRAP to coordinate replacement of their upper lateral.

### **General and Administrative:**

General and Administrative expenses round out the Operations and Maintenance expenses of the District. The expenses under this category are District wide and benefit all departments.

- Election costs are budgeted at \$25,000 bi-annually, every even fiscal year, and is based on estimated billings from the Marin County Registrar of Voters. The next election is November 2024.
- Computer Services and Software includes annual software renewals, outside computer network support, Zoom video conference, and other incidental computer software products. As software companies move away from providing owned software licenses and switch to a Software-as-a-Service ("SaaS") licensing and delivery model, in which software is licensed on a subscription basis and is centrally hosted, the District will see these expenses rise. CityWorks and ArcGIS follow the multi-year SaaS licensing models. Other software such as SCADA, Caselle, and Microsoft Office which have software license agreements for one-year or less are treated as incidental software licenses. Computer equipment below the capital asset threshold is replaced as needed under the Office Supplies & Equipment cost center.
- Public education and outreach expenses are for the joint efforts with other Marin County wastewater treatment agencies, web site maintenance, donation requests from community groups for funding, special mailings and for the District's newsletter and annual sewer rate change mailings.
- Rents and leases include the annual administration office lease at 101 Lucas Valley Road (\$114,900), lease of the postage machine, off-site records storage, railroad easements and copiers. The lease for the administration office is up for renewal on December 1, 2024 and an increase in rent is anticipated.



# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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- Employee training and education includes the cost for the District to participate in the Liebert Cassidy Whitmore employment relations consortium and other offsite training. Management training and coaching has been added to the budget for all managers and supervisors following the 2024 FutureSense climate assessment report. An increase in offsite training conferences in 2024 and 2025 is expected, and the budget reflects this increase over the current year actuals.

### Debt Service

The District has five issuances of debt outstanding. They are as follows:

- Certificates of Participation (COP) with an original principal amount of \$10,000,000, which were issued in 2005, and have annual principal and interest payments through December 2025. The District refinanced them at a reduced interest rate of 3.3% which will save interest over the remaining life and will result in lower annual payments. The principal balance remaining is scheduled to be \$1,408,800 as of July 1, 2024.
- State Revolving Fund Loan (SRF) was a construction loan which originated in 2010 and was completely drawn down in 2012. The original principal amount was \$4,314,750 with annual principal and interest payments through June 2032. The interest rate is 2.7%. The principal balance remaining is scheduled to be \$2,029,476 as of July 1, 2024.
- Bank of Marin Loan #1 which originated in 2011 with a principal amount of \$4,600,000. Monthly principal and interest payments are due through June 2031. The interest rate is 3.88%. The principal balance remaining is scheduled to be \$2,032,589 as of July 1, 2024.
- 2017 Revenue Bonds were issued in April 2017 with a principal amount of \$38,365,000. The true interest rate to maturity is 3.2984%. Annual principal and interest payments are due through April 2042. The principal balance remaining is scheduled to be \$31,110,000 as of July 1, 2024.
- The District entered into an agreement with California Infrastructure and Economic Development Bank (IBank) in May 2019 for a loan of \$12,000,000. The loan has a maturity date ranging from August 1, 2019 through August 1, 2043. The interest rate on the loan is 3.0% per annum. The principal balance remaining is scheduled to be \$10,252,581 as of July 1, 2024. An annual service fee, \$30,758 for 2024-2025, is treated as an Operating & Maintenance expense but recognized as debt service for budget purposes. The annual fee is not reported as a long-term obligation in audited financials.

The debt service does not reflect the reimbursement to be received from MMWD for buying into the existing recycled water treatment facility or their portion of the 2017 Revenue Bonds. The payments received from MMWD are deposited into the operating account for use to pay their share of debt service for the recycled water treatment facility improvements. Choosing to recognize debt service payments from MMWD as a reimbursement to the general operating account for debt service payments, rather than funding of the capital reserve, results in the District's 2017 Revenue Bonds debt obligation being lower.

The Debt Service Coverage Ratio (DSCR) for the District for 2024-2025, based on the presented budget and debt service, is determined by dividing the Net Operating Income (\$10,682,420) by Total Debt Service (\$4,506,819). The calculated DSCR for 2024-2025 is therefore 2.37. The District is required to maintain a DSCR of 1.25 or higher due to bond covenants and we are above this minimum. The District includes both its operating income and non-operating income, primarily guaranteed property taxes, in determining its Net Operating Income which is used in the calculation of DSCR. When specifically included in a utility's bond indenture, rate stabilization reserves can be used to help meet debt service coverage requirements during times of revenue shortfalls.

# Las Gallinas Valley Sanitary District

## Proposed Budget – 2024-2025

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### Reserves

District Financial Policy F-50 (Reserves) establishes reserves, explains the purpose and reasons for the size of each reserve, and provides for oversight of reserves.

- Operating & Rate Stabilization Reserve has a target of a minimum balance equal to 7 months of average annual budgeted expenses. Based on reserve fund policy the reserve target for 2024-2025 is approximately \$10,100,000 and the reserve will have a balance of \$4,247,894 at the beginning of the upcoming fiscal year. The budget includes adding \$585,211, one-tenth of the reserve target shortfall, to the budget for 2024-2025. The reserve has been established to fund unexpected expense increases and can be used to help stabilize sewer service charge rate swings.
- Emergency repair reserve target is \$1,500,000 and can be used to fund emergency repairs. Any shortfall in the reserve is to be built up over 2-3 years. The budget is proposing \$111,111 be added to the reserve in 2024-2025.
- Capital Reserves contains both designated and undesignated funds for capital projects. The target of \$11,000,000 includes \$9,000,000 designated for the construction of the Operation Control Center OCC / Administration building and the Multi-Use Laboratory / Education Center / Board Room building. The Proposed budget for 2024-2025 includes adding an additional \$1,018,529 to the Designated Capital Reserve for this project and reallocating \$1,318,529 from the undesignated balance to designated capital reserve balance. The budget authorizes \$500,000 for use towards the corporation yard design project.
- Vehicle and Equipment Reserve (VERF) was established in Fiscal Year 2019-2020 to fund vehicle and equipment replacements. The reserve was targeted at \$1,000,000. A total of \$100,000 will be added to replenish the VERF and \$584,043 will be used to purchase vehicles and equipment listed on the Capital Outlay budget in 2024-2025.
- Capacity Connection Fee reserve fund is restricted for the use of collection system and plant capacity improvements to serve the new connections that contributed to the fund through fees collected. The budget includes the addition of \$342,200 to the reserve.
- Captains Cove and Marin Lagoon are restricted reserves built up when there is an excess of special assessments over projected operations, maintenance and capital expenditures which are collected for these developments. Both funds will be drawn down to pay for operational and capital projects. A rate surcharge rate study was undertaken as part of the 2023 Sewer Service Rate Study, and it determined that Captains Cove and Marin Lagoon contributions are sufficient to continue the ongoing operations and maintenance needs of the pump stations serving these communities. Larger capital improvement projects may require an increase in the surcharge in a future fiscal year budget.
- Recycled Water Capital Repair and Replacement restricted reserve fund was created in May 2023. LGVSD and MMWD are required to contribute 10% of their portion of annual recycled water O&M costs into this restricted fund for future capital expenditures to the Recycled Water Treatment Facility. A total of \$17,520 will be added to the restricted fund in 2024-2025.

### Capital Outlay

The District is required to budget for the adequate maintenance of capital equipment and facilities to protect the public investment and ensure achievement of their maximum useful life. The District is required to prepare and adopt a at minimum a 5-Year Capital Improvement Program ("CIP") as part of the rate setting process that identifies and sets priorities for all major capital assets to be acquired, constructed, or replaced by the District.

# Las Gallinas Valley Sanitary District Proposed Budget – 2024-2025

The District has chosen to prepare a 7-Year CIP which includes a biosolids program and flood and sea-level mitigation projects that have been identified to take place after 2027. District policy requires the CIP be included in the adopted budget and that the status of the CIP is updated annually as part of the budget process.

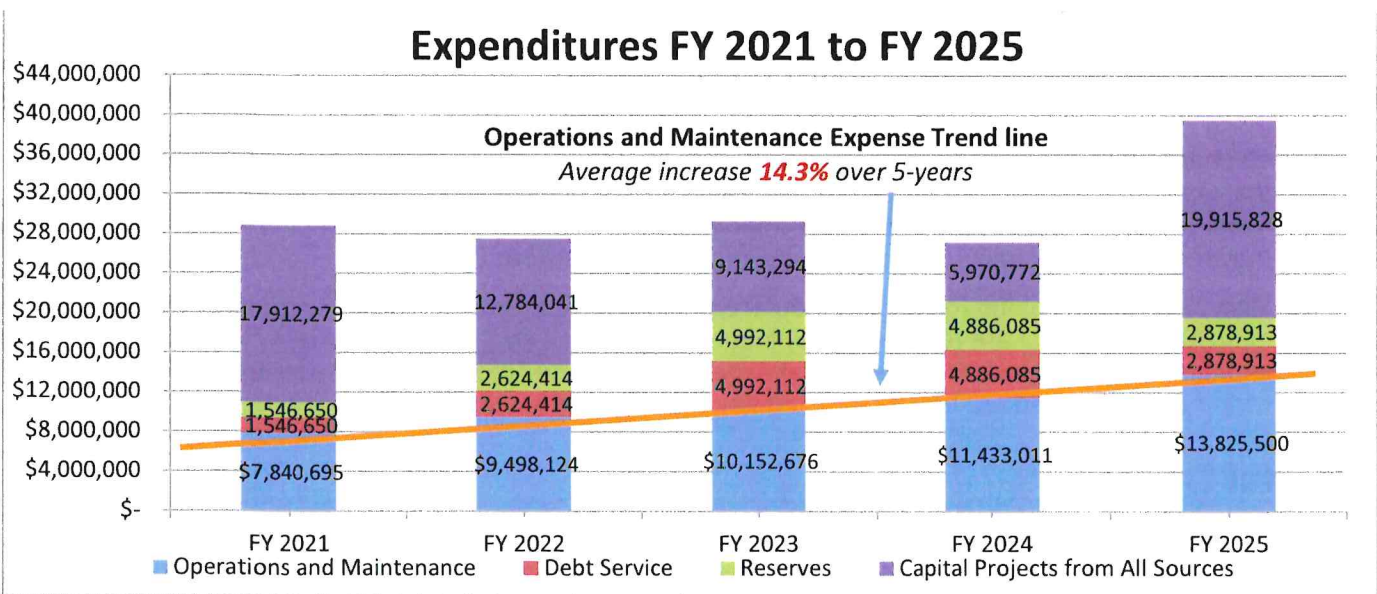
The CIP identifies adequate funding to support the acquisition, construction and replacement of assets identified in the plan, and identifies projects that the District believes beneficial to the system, but funding has not yet been identified. The CIP includes and indicates when and for what projects the District intends to finance through the issuance of debt. Additionally, the District strives to develop a comprehensive strategy and funding plan for the renewal and replacement of existing capital assets.

The Capital Outlay budget contains projects specifically identified in the 7-Year CIP for 2024-2025 through 2030-2031 plus miscellaneous capital needs that change yearly. The proposed 2024-2025 Budget only includes funding approval for projects identified in the first year of the CIP and contains the list of projects to be funded with the adoption of this budget. The additional projects listed in the CIP are proposed for future years and they will require their own funding approval as part of their respective yearly budget.

Collection system projects, including the Smith Ranch Pump Station Electrical Upgrade and restarting of the Sewer Main Collection System Rehabilitation Program, will comprise most of the capital budget in 2024-2025, with total collection system project costs budgeted at \$8,413,397.

Authorization to proceed with the Primary Effluent Pump Station and Secondary Clarifier Expansion project to eliminate blending by increasing treatment capacity to 24 MGD was approved by the Board on May 16, 2024 has been added to the Capital Outlay budget. Unspent funding from the STPURWE project was allocated to partially fund this new project with the remaining funding source coming from unrestricted funds in 2024-2025.

The following is a graph showing the composition of District expenditures for the past four (4) fiscal years plus this upcoming budget year of 2024-2025. O&M expenses have increased an average of 13.5% a year over three years and 14.3% over five years.



**\*\* Supporting Financial Statements are attached to this report on the following pages \*\***