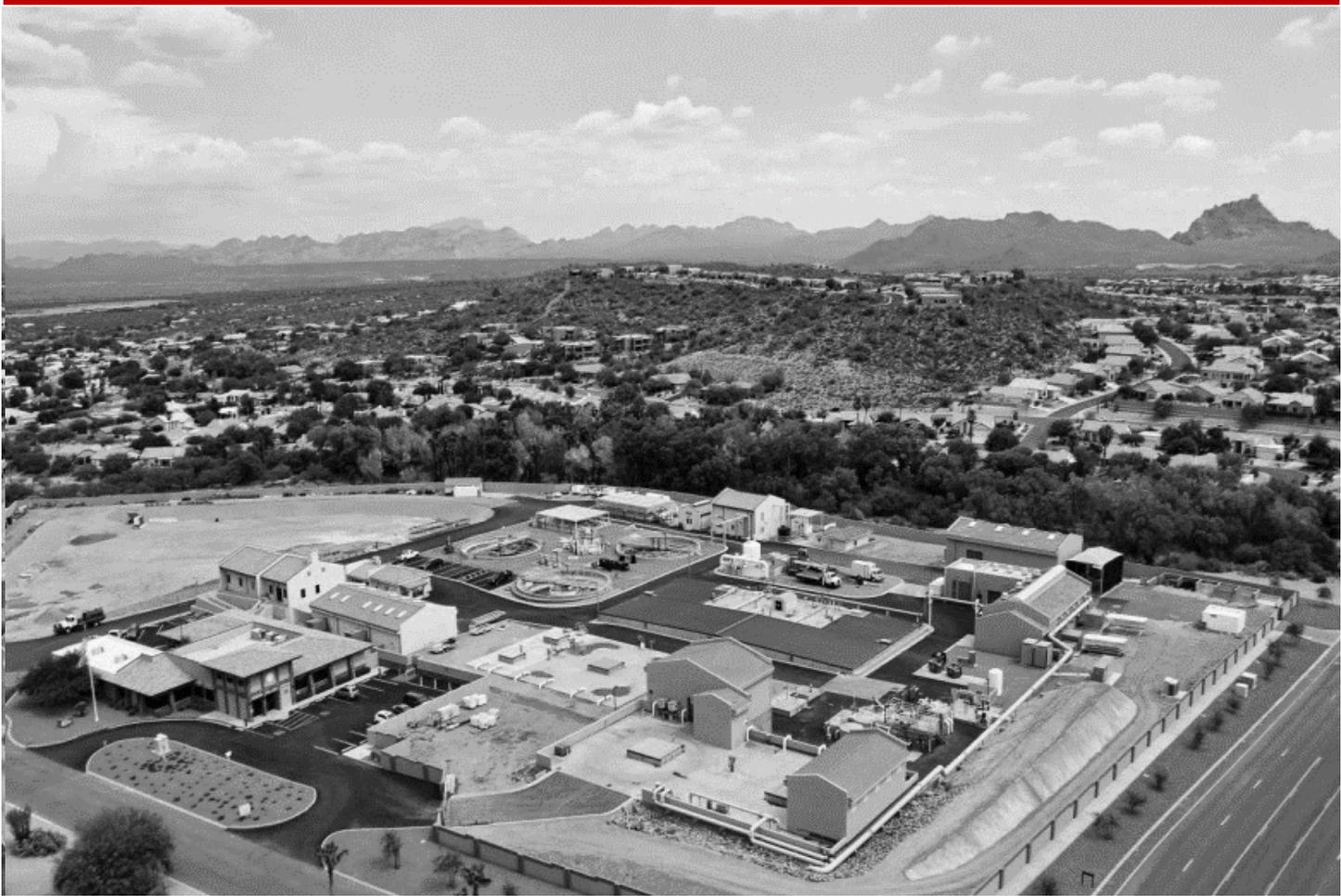


**FOUNTAIN HILLS SANITARY DISTRICT
FISCAL YEAR 2016-2017
ADOPTED BUDGET**



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



Table of Contents

OVERVIEW		CAPITAL OUTLAY	
Introduction	1	Discussion	20
Revenues & Expenditures	2	Revenues & Expenditures by Fund	21
Three-Year Comparison		2015-2016 Adopted Budget	
Revenues	3	Capital Outlay Funding by Source	21
Expenditures	3	2016-2017 Adopted Budget	
2016-2017 Adopted Budget		Capital Outlay Funding by Source	21
Expenditures by Revenue Source	3	Five-Year Capital Outlay Plan Highlights	22
Five Year Budget Projection	4	Project Descriptions	23
Projected District Cash Balances	5	Anticipated Capital Outlay Spending	
Contingency Fund: Discussion	6	per Fiscal Year	23
		Five-Year Capital Outlay Plan	
DISTRICT OPERATIONS		(Chronological Grid - Projects)	24
Discussion	7	Five-Year Capital Outlay Plan	
Operating Revenues & Expenditures	8	(Chronological Grid - Equipment)	25
Operating Revenues		TAXES & FEES	
Revenue Source Comparison	9	Fees Summary	26
Operating Expenditures		Property Tax Discussion & Historical Data	27
Operating Expenditures by Category	10	Property Tax Rates (per \$100 of AV) and	
Operating Expenditures: WWTP	11	Property Tax Assessments 2006-2016	27
Operating Expenditures: WWTP		PUBLIC NOTICE & Resolution 264	
WWTP Expenditures: Year-to-Year Comparison	12	2016-2017 Fee Schedule	28
WWTP Expenditures by Category	12		
Operating Expenditures: RW	13		
Operating Expenditures: RW			
RW Expenditures: Year-to-Year Comparison	14		
RW Expenditures by Category	14		
Operating Expenditures: CS	15		
Operating Expenditures: CS			
CS Expenditures: Year-to-Year Comparison	16		
CS Expenditures by Category	16		
Operating Expenditures: Billing	17		
Operating Expenditures: Billing			
Billing Expenditures: Year-to-Year Comparison	18		
Billing Expenditures by Category	18		
Operating Expenditures: Personnel	19		

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



OVERVIEW

Introduction

Established in 1969 under Title 36 (now Title 48) of the Arizona Revised Statutes, the Fountain Hills Sanitary District serves 11,691 acres of mostly residential property contained within its boundaries. The District collects, treats, and disposes of wastewater and its byproducts at an average rate of two million gallons per day. An elected Board of Directors made up of five members, each serving four-year terms, governs the District.

The District reports, plans, and operates on a fiscal year basis, July 1st to June 30th. In the spring, District staff prepares a "Proposed" Budget and presents it to the Board of Directors for consideration. Once adopted by the Board, the "Adopted" Budget establishes monetary boundaries for managing the District's day-to-day operations in the upcoming fiscal year and identifies the District's short-term and long-term plans for capital spending.

Financial accounts of the District are organized into three funds: General, Capital, and Contingency. Each fund is accounted for with a separate set of self-balancing accounts. This Overview presents the anticipated activity of all funds collectively. A summary report and illustrations of the District's anticipated revenues and expenditures in the coming fiscal year are presented here. The Contingency Fund is described on page 6 of the Overview section.

A more detailed discussion of forecasted expenditures, separated into two categories, District Operations and Capital Outlay, follows this section. The Taxes and Fees section of the budget addresses current and historical data related to sources of District revenue and includes the Fee Schedule for the 2016-2017 fiscal year.

Highlights for Fiscal Year 2016-2017:

- In fiscal year 2015-2016 the District budgeted a transfer from its Contingency Fund to the General Fund to be completed "as needed" to mitigate an anticipated cash shortfall related to planned capital projects. Although this transfer was not required for the 2015-2016 fiscal year, the District's five-year plan for capital outlay may require such a transfer in upcoming fiscal years. The potential transfer and associated repayment of such funds is included in this adopted budget.
- Net assessed property values (NAV) within the District increased 7.5%. NAV determines the property tax rate needed to generate the District's property tax assessment (total dollars). It should be noted that despite the increase in NAV, the District's budgeted assessment for 2016 is nearly 10% less than the average of District assessments over the last 10 years.
- This budget does not include revenues or expenditures related to providing service to the former state trust land. Although the future development of this land will have significant impact on the District, it is not currently within defined District boundaries. For the purpose of this budget, "growth" refers to the approximately 1,400 lots remaining to be developed within the current District boundaries.

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



OVERVIEW

Revenues & Expenditures

	General Fund	Capital Fund	Contingency Fund	2016-2017 Adopted Budget All Funds	2015-2016 Adopted Budget All Funds
Revenues					
Property Taxes	3,900,000			3,900,000	3,650,000
Sewer User Fees	4,416,100			4,416,100	4,236,500
Connection Fees	14,800	378,520		393,320	372,520
Reclaimed Water Sales	457,800			457,800	457,800
Other Income	100,425	3,500	11,754	115,679	124,502
Cash Reserves*	2,151,431			2,151,431	1,586,458
Cash Reserves (Accumulated)**		2,096,382	3,370,445	5,466,827	4,727,429
Interfund Transfer	327,442		(327,442)	-	-
Total Revenues	\$11,367,998	\$ 2,478,402	\$ 3,054,757	\$ 16,901,157	\$ 15,155,209
Expenditures					
Operating Expenditures					
WWTP	3,143,266			3,143,266	2,945,132
RW	1,521,298			1,521,298	1,470,090
CS	2,051,134			2,051,134	2,011,867
Billing	377,300			377,300	398,253
Subtotal					
Operating Expenditures	7,092,998			7,092,998	6,625,418
Capital Outlay	4,275,000	1,000,000		5,275,000	2,642,875
Contingency				-	-
Total Expenditures	\$11,367,998	\$ 1,000,000	\$ -	\$ 12,367,998	\$ 9,268,293
Excess of revenues over expenditures	\$ -	\$ 1,478,402	\$ 3,054,757	\$ 4,533,158	\$ 5,886,916

* Cash Reserves are unexpended resources from the 2015-2016 fiscal year used to reduce the District's current year revenue requirement in the General Fund.

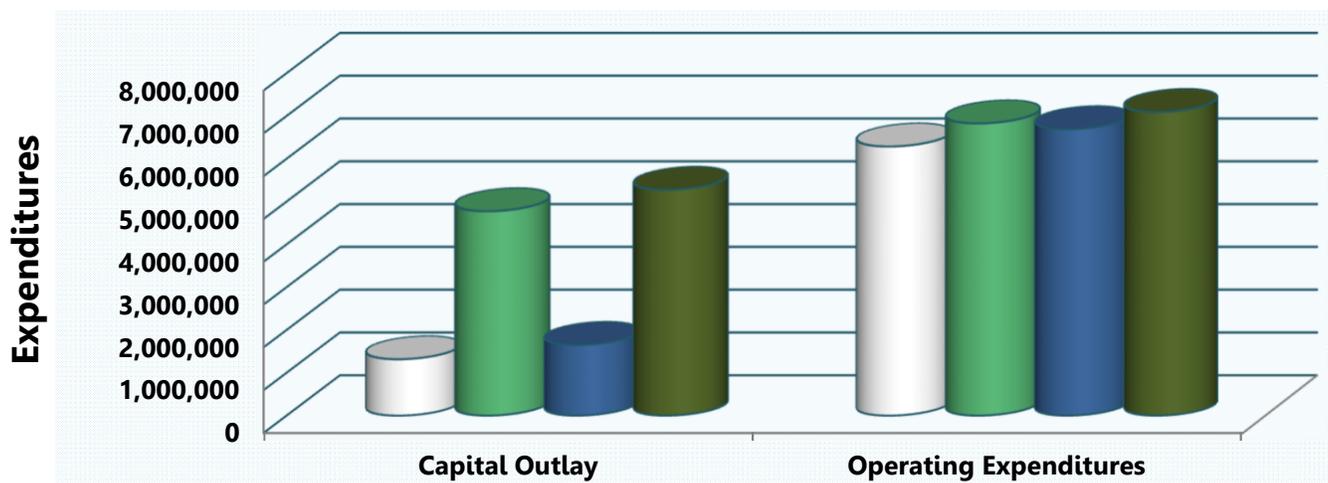
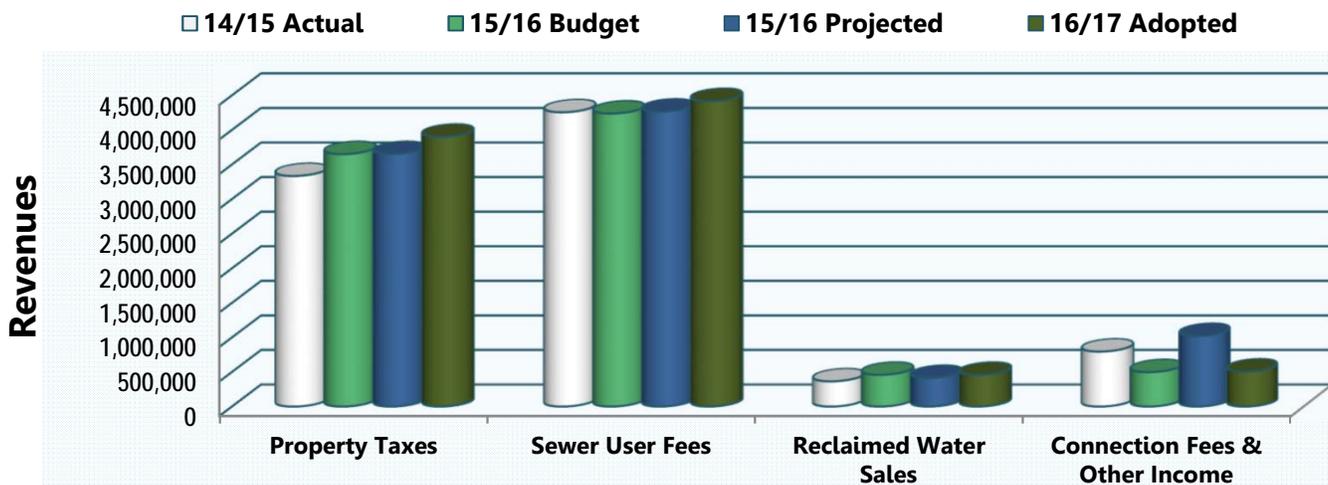
** Cash Reserves (Accumulated) are those cash reserves carried forward year-to-year or "accumulated" to fund future projects associated with growth (See Page 20) or for purposes of stabilization as outlined in the District's Contingency Fund Policy (See Page 6).

FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET

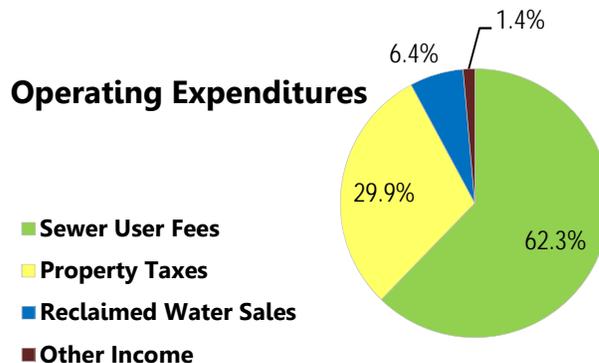
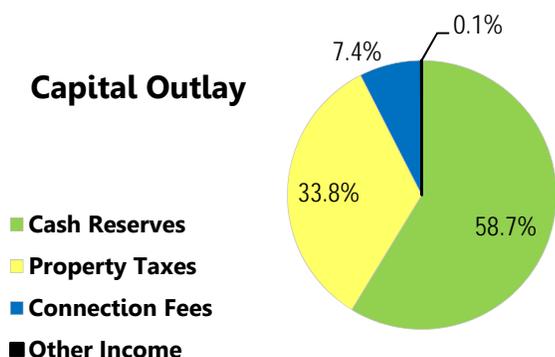


OVERVIEW

Three-Year Comparison



2016-2017 Adopted Budget Expenditures by Revenue Source



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



OVERVIEW

Five Year Budget Projection (Excludes Contingency Fund Cash)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Beginning Cash Balance*	\$ 4,247,813	\$ 1,478,401	\$ 250,000	\$ 500,000	\$ 250,000
Revenues					
General & Capital Funds					
Property Taxes	3,900,000	4,017,000	4,137,510	4,261,635	4,389,484
User Fees	4,416,100	4,416,100	4,416,100	4,416,100	4,575,080
Connection Fees	393,320	393,320	393,320	393,320	393,320
Reclaimed Water Sales	457,800	592,800	592,800	592,800	592,800
Interest & Other	431,367	2,870,236	(455,826)	(22,913)	1,078,286
Total Revenues	9,598,587	12,289,456	9,083,904	9,640,942	11,028,970
Expenditures					
Operating Expenditures	(7,092,998)	(7,234,858)	(7,451,904)	(7,600,942)	(7,828,970)
Capital Outlay					
Construction in Progress	(3,699,823)	(5,108,742)	(525,000)	(225,000)	(625,000)
Anticipated Project Starts	(1,016,833)	(776,750)	(857,000)	(2,065,000)	(2,575,000)
Capital Fund					
Capital Outlay					
Construction in Progress	(541,678)	(397,508)	-	-	-
Anticipated Project Starts	(16,667)	-	-	-	-
Total Expenditures	(12,367,998)	(13,517,858)	(8,833,904)	(9,890,942)	(11,028,970)
Ending Cash Balance	\$ 1,478,401	\$ 250,001	\$ 500,000	\$ 250,000	\$ 250,000
<i>Projected</i>					
<i>Contingency Fund Balance</i>	\$ 3,054,757	\$ 865,449	\$ 1,428,229	\$ 1,560,066	\$ 1,565,526

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

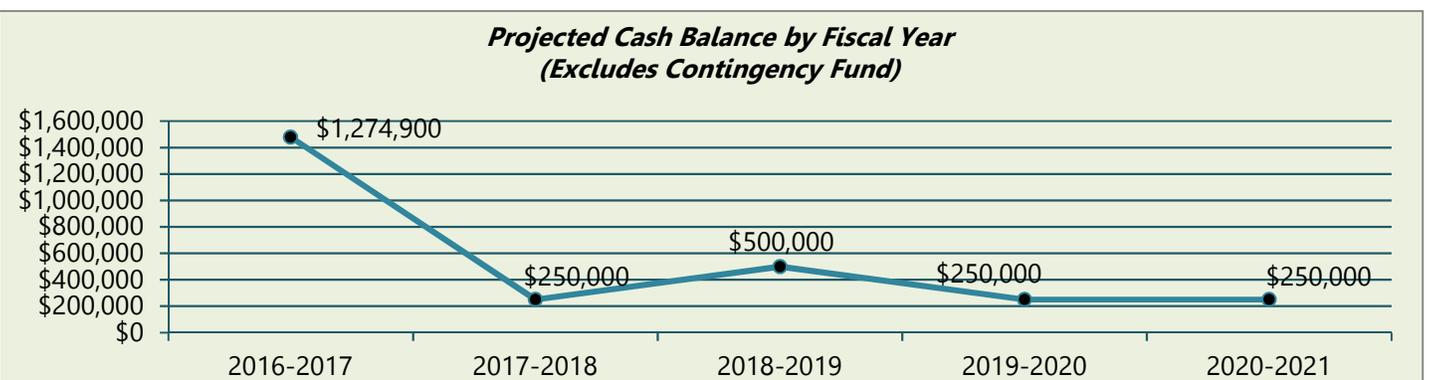
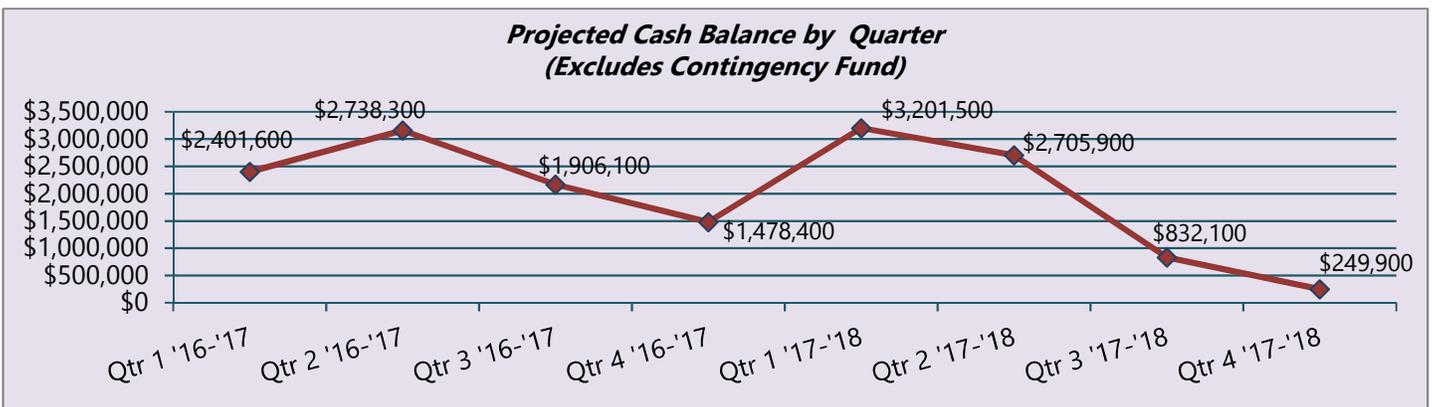
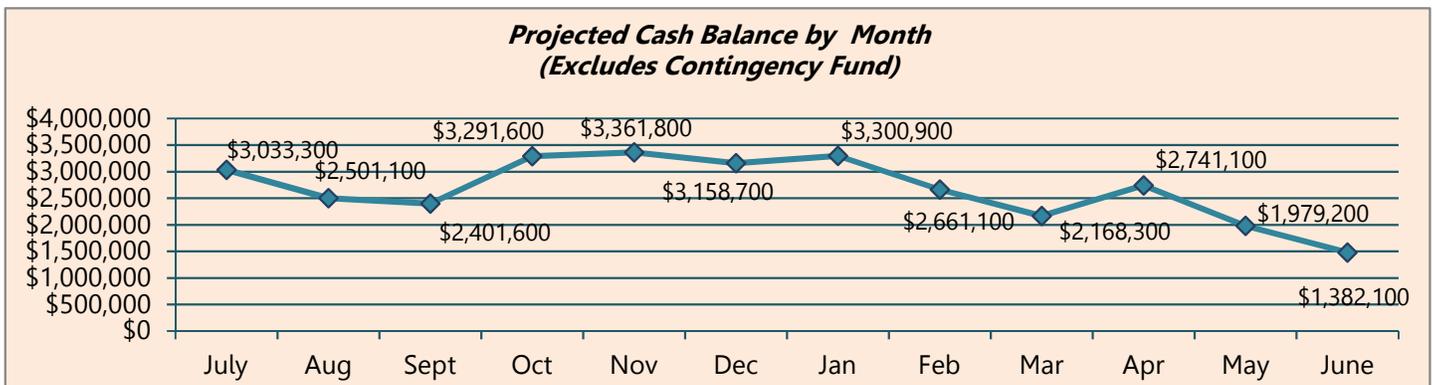
ADOPTED BUDGET



OVERVIEW

Projected District Cash Balances

The District's cash position compared to expected cash position is reported to the Board of Directors each month. In the interest of maintaining reasonable and fairly consistent fees and tax levies for the benefit of District constituents, it is important that the Board and District staff consider the District's actual and projected cash position in all financial decisions, particularly in the budget process. Graphical presentations of the District's projected monthly (2016-2017 fiscal year), quarterly (two years) and annual (five years) cash balances are presented below.



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



OVERVIEW

CONTINGENCY FUND: Discussion

The Contingency Fund provides a designated cash reserve intended to protect the District against reducing service levels or having to increase short-term revenues as a result of unanticipated expenditures or revenue shortfalls. The fund may be used to address temporary cash flow shortages or emergencies. According to District policy, the Board of Directors shall take into consideration the monthly budget for General Fund expenditures, events which may cause fluctuation or reduction in revenue, liquidity of District resources, the impact of changes to regulatory requirements, and the latent costs of recovery from unforeseen events to determine the Desired Contingency Fund Balance (DCFB). When needed to meet the established DCFB, the Board shall include in the budget a transfer from the General Fund to the Contingency Fund.

No revenues, other than Interest, are included in the 2016-2017 Contingency Fund Budget and, by nature, Contingency Fund expenditures are unplanned and unpredictable. Because the Contingency Fund has only one revenue source and very limited usage, Revenues and Expenditures for this fund are not reported separately (see page 2).

The anticipated Contingency Fund balance at July 1, 2016 is \$3,375,000.

District staff is anticipating a transfer from the Contingency Fund of up to \$327,442 as needed to cover expenses for Capital Outlay expenditures in fiscal year 2016-2017. It is our expectation that these funds will be completely repaid to the Contingency Fund in fiscal year 2022-2023 with the anticipation that spending for Capital Outlay will be greatly reduced in the two years immediately following the five-year planning period included in this budget. Please refer to page 24 for the District's Five-Year Capital Outlay Plan Highlights. This transfer is in accordance with the Contingency Fund guidelines designed to help mitigate the budgetary impact of required cash outlays and temporary cash flow shortages.

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



DISTRICT OPERATIONS

Discussion

The District Operations section of this budget presents revenue and expenditure components related to the daily operation of the Fountain Hills Sanitary District and accounted for in the District's General Fund. District staff must anticipate expenditures required to operate the District throughout the fiscal year and estimate the revenues likely to be generated from operating activities. Based on these predictions, District staff requests a property tax assessment and proposes fee schedule changes designed to present a "balanced" General Fund budget in which calculated revenue estimates match anticipated expenditures.

Costs incurred for the day-to-day operation of the District are considered Operating Expenditures. The District must generate revenues sufficient to pay the total cost of District Operations (Operating Expenditures and Capital Outlay not associated with growth) and adequately manage cash flows throughout the fiscal year.

All Operating Expenditures, including personnel costs, are classified into one of the following four categories: Wastewater Treatment Plant (WWTP); Reclaimed Water Treatment, Distribution, and Disposal (RW); Collection System (CS); and Billing. These expenditures are presented in detail beginning on page 10. Wages and other costs associated with District personnel are presented in aggregate on page 19.

The District Operations component of the General Fund budget, descriptions of revenue sources available to support District Operations, and a detailed discussion of Operating Expenditures organized by category are presented in this section. The remainder of General Fund activity, as reported on page 2, is associated with the Capital Outlay component of the General Fund budget. This Capital Outlay component consists of expenditures which provide long-term benefit to the District and are necessary to repair, replace, or extend the useful life of existing District assets and unit processes. Capital Outlay and associated revenue sources are presented for both the General and Capital Funds in the Capital Outlay section beginning on page 20.

Highlights of the District's Operating Budget for Fiscal Year 2016-2017:

- Operating expenditures for fiscal year 2016-2017 are expected to increase 7.1% over the 2015-2016 Adopted Budget. Phoenix area CPI increased 1.8% during the 2015 calendar year.
- The District will increase Sewer User Fees by \$1.00 per month. This is a 4.2% increase to User Fees overall and a total increase of \$165,000 this budget year. This increase is essential to maintaining District facilities and infrastructure and to meet the rising costs of daily operations and maintenance.
- The budget for Connection Fee revenue has been conservatively increased in anticipation of continued and new construction activities within the District.
- A 7.5% increase to the Net Assessed Value of properties within the District will help the District fund increasing operating expenditures while the property tax rate used to determine each resident's property tax assessment is decreased by 1.0%. The result is a net increase in the District's property tax assessment of \$250,000 (6.8%). This increase translates to an estimated average of \$15.53 per parcel. Despite this increase, the District's 2016 assessment is budgeted at 8.8% less than the average of District assessments over the last 10 years.

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Revenues & Expenditures

	2015-2016 Projected	2015-2016 Adopted Budget	2016-2017 Adopted Budget	Increase (Decrease) from	
				2015-2016 Projected	2015-2016 Adopted Budget
Revenues					
Property Taxes	2,007,794	2,007,794	2,103,873	96,079	96,079
Sewer User Fees	4,264,028	4,236,500	4,416,100	152,072	179,600
Connection Fees	13,625	14,000	14,800	1,175	800
Reclaimed Water Sales	412,487	457,800	457,800	45,313	-
Other Income	99,764	109,248	100,425	661	(8,823)
Total Revenues	\$ 6,797,698	\$ 6,825,342	\$7,092,998	\$ 295,300	\$ 267,656
Operating					
WWTP	2,935,743	2,945,132	3,143,266	207,523	198,134
RW	1,504,025	1,470,090	1,521,298	17,273	51,208
CS	1,963,242	2,011,867	2,051,134	87,892	39,267
Billing	285,825	398,253	377,300	91,475	(20,952)
Total Expenditures	\$ 6,688,835	\$ 6,825,342	\$7,092,998	\$ 404,163	\$ 267,657
Excess of revenues over expenditures	\$ 108,863	-	-	\$ (108,863)	-

FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Revenues

Revenue Source Comparison



The illustration above displays the District's three major sources of operating revenue over five years. The size of each section illustrates the relative contribution of the revenue source to funding the steady growth in operating expenditures over time. Connection Fees and Other Income are not separately designated on this graph due to their relatively small contribution to the total.

Total Operating Expenditures, as adopted for fiscal year 2016-2017 are \$1,073,675 more than actual fiscal year 2012-2013 spending, an increase of 17.6% in five years. Despite this increase, the rates for Sewer User Fees have remained fairly stable. The last user fee increase was adopted four years ago in the 2012-2013 fiscal year.

Property taxes give the District the ability to collect funds needed to operate, repair, and extend District facilities in order to balance the General Fund Budget. This revenue source is allocated between District Operations and Capital Outlay as needed.

Sales of reclaimed water are an important revenue source used to offset some of the costs associated with reclaimed water treatment, distribution, and disposal. Budgeted amounts for this revenue source have dropped recently due to implementation of the District's Sodium Remediation Program. This program is designed to help local golf courses, the primary reclaimed water users, to offset the cost of infrastructure needed to mitigate the effect that sodium rich reclaimed water has on their grass. Additionally, fluctuations in weather which affect golf course operations can cause actual revenues to vary considerably from budget amounts.

Although not separately designated in the graph above, Other Income, such as Interest Income contributes to the District's annual operating revenues.

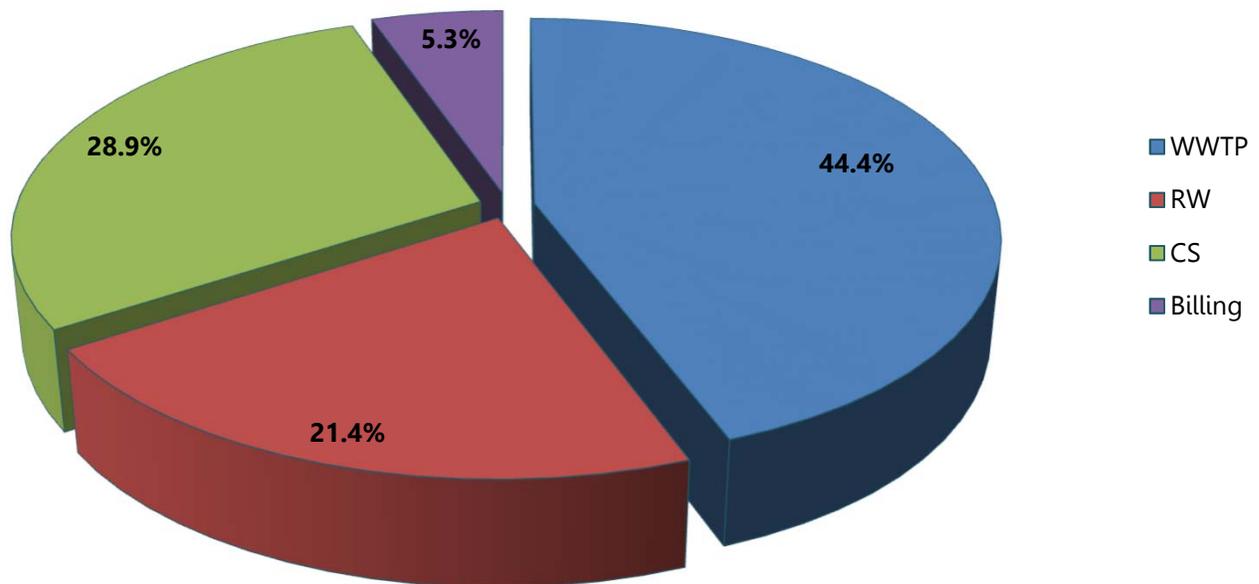
FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Expenditures

Operating Expenditures by Category



WWTP: Wastewater Treatment Plant operations make up 44.4% of total Operating Expenditures. The WWTP operates around-the-clock, treating an average of approximately two million gallons of wastewater per day.

RW: RW accounts for 21.4% of total Operating Expenditures. Costs associated with Reclaimed Water Treatment, Distribution, and Disposal are most impacted by maintenance and operations costs applicable to Aquifer Storage & Recovery (ASR) wells, electricity, and personnel costs. The 2016-2017 Adopted Budget for RW costs, includes allowances for system maintenance, chemicals, well maintenance, and a portion of both Collection System and Plant personnel costs allocated for RW functions regularly carried out by these departments.

CS: The Collection System accounts for 28.9% of total Operating Expenditures. Major components such as pump stations, force mains, and sewer lines provide the essential infrastructure needed to collect sewage for treatment and disposal. Some of this infrastructure has been in service for more than forty years demanding increased monitoring, preventive maintenance, and, at times, immediate repair or replacement.

Billing: Billing accounts for 5.3% of total Operating Expenditures. Billing expenditures incorporate all costs associated with the billing and collection of User and Availability Fees.

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Expenditures: WWTP

	2015-2016 Projected	2015-2016 Adopted Budget	2016-2017 Adopted Budget	Increase (Decrease) from	
				2015-2016 Projected	2015-2016 Adopted Budget
WWTP					
Operations					
Maintenance & Supplies	817,247	833,925	950,313	133,066	116,388
Personnel	1,641,100	1,674,592	1,752,541	111,441	77,949
Utilities	373,111	380,725	386,484	13,374	5,759
Lab	54,772	55,890	53,928	(844)	(1,962)
Total WWTP	\$ 2,886,229	\$ 2,945,132	\$ 3,143,266	\$ 257,037	\$ 198,134

Clark Moskop, a 27 year veteran of the District, manages the Wastewater Treatment Plant (WWTP) which currently employs 18 operators and 2 laboratory staff members. Staff has requested the addition of one operator with this budget, bringing the total to 21 WWTP employees. Various factors have steadily increased the demand on District personnel over the past few years. These factors include aging unit processes requiring more operator attention, regulatory requirements for increased testing, short and long term absences due to vacation, illness, or disability, and increases to per shift staffing requirements for the improvement of safety.

Notable contributors to increases in adopted expenditures are:

- The ongoing concern for maintenance of aging systems and equipment contributes to Operations, Maintenance & Supplies projections.
- A shift to operation of two aeration basins instead of one is expected to impact utility costs.
- The requested addition of an entry level operator including wages and benefit costs, along with the allocation of increased shared and administrative staff salaries.
- Price fluctuations and noted increases in the cost of odor control media, particularly carbon-based media.
- A shift from personnel to operations expenses has occurred with safety functions to be outsourced in the upcoming fiscal year.

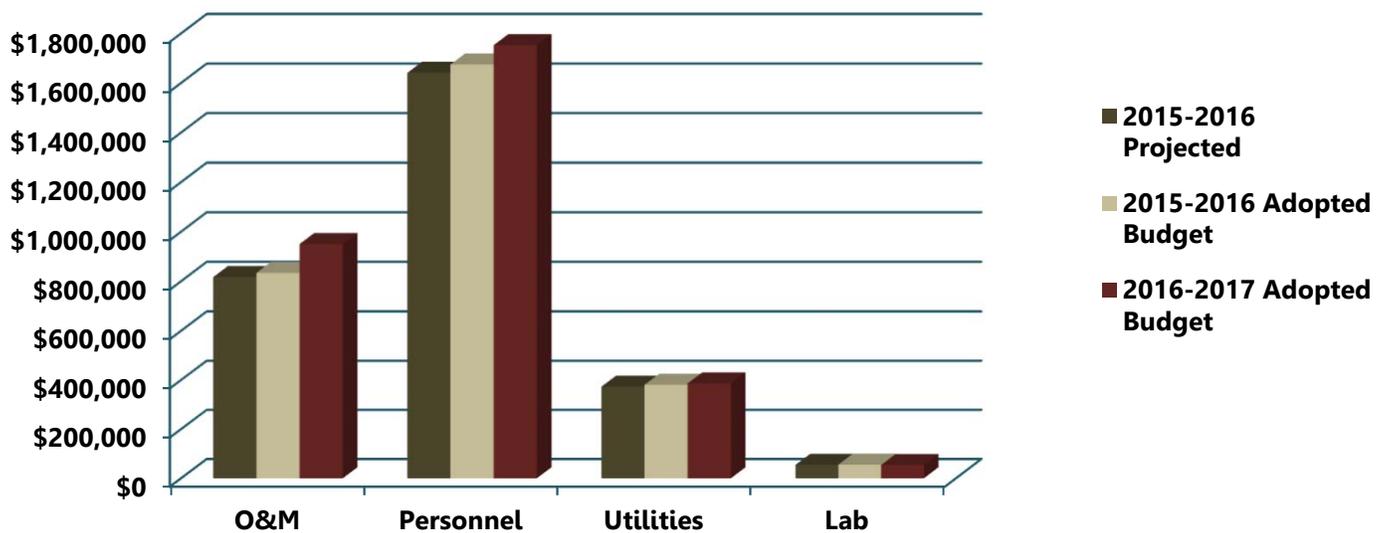
FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



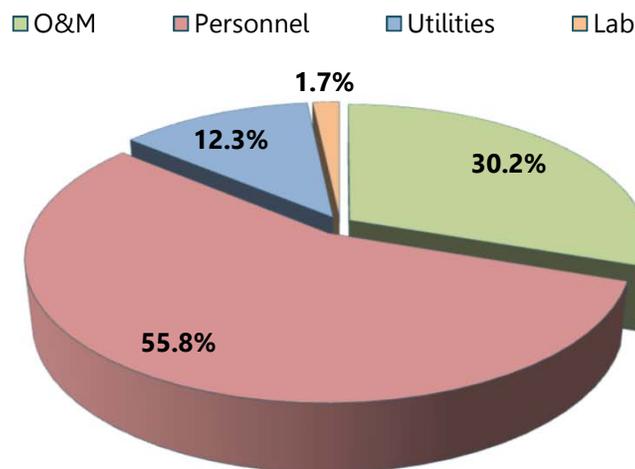
DISTRICT OPERATIONS

Operating Expenditures: WWTP

WWTP Expenditures: Year-to-Year Comparison



WWTP Expenditures by Category 2016-2017 Adopted Budget



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Expenditures: RW

	2015-2016 Projected	2015-2016 Adopted Budget	2016-2017 Adopted Budget	Increase (Decrease) from	
				2015-2016 Projected	2015-2016 Adopted Budget
RW					
Operations					
Maintenance & Supplies	436,578	445,488	493,557	56,979	48,069
Personnel	757,532	772,992	773,373	15,841	381
Utilities	233,730	238,500	240,885	7,155	2,385
Lab	12,848	13,110	13,482	634	372
Total RW	\$ 1,440,688	\$ 1,470,090	\$ 1,521,298	\$ 80,609	\$ 51,208

Costs associated with treatment, distribution, and disposal of reclaimed water after it leaves the wastewater treatment plant make up RW Operating Expenditures. At the Advanced Water Treatment Facility (AWTF), reclaimed water is treated prior to being recharged into one of five ASR wells. The AWTF and distribution system are operated by WWTP staff members. Clark Moskop, the WWTP Operations Manager, is also responsible for this area of District Operations. Reclaimed water distribution lines are maintained by Collection System employees, under the management of Bill Cunningham.

Personnel represents the largest portion of the 2016-2017 RW Proposed Budget. Twenty percent of plant and collection system personnel as well as a portion of shared administrative personnel costs are included in the RW budget.

The allocation of budgeted expenditures between categories (WWTP, RW, CS, and Billing) continues to be adjusted to more closely reflect actual allocations between departments during the fiscal year.

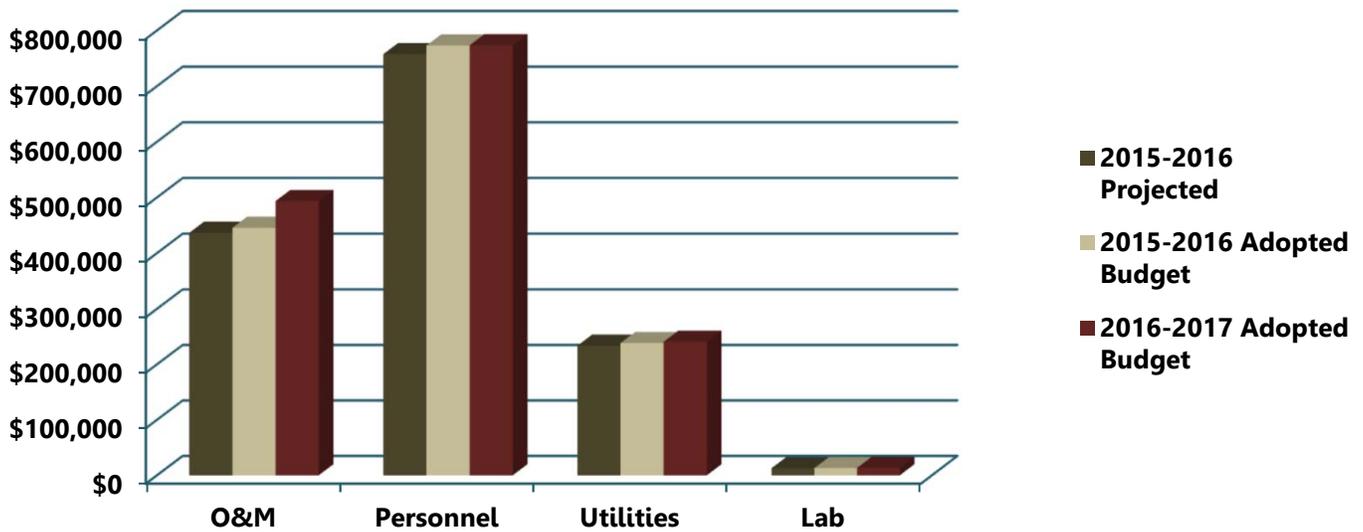
FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



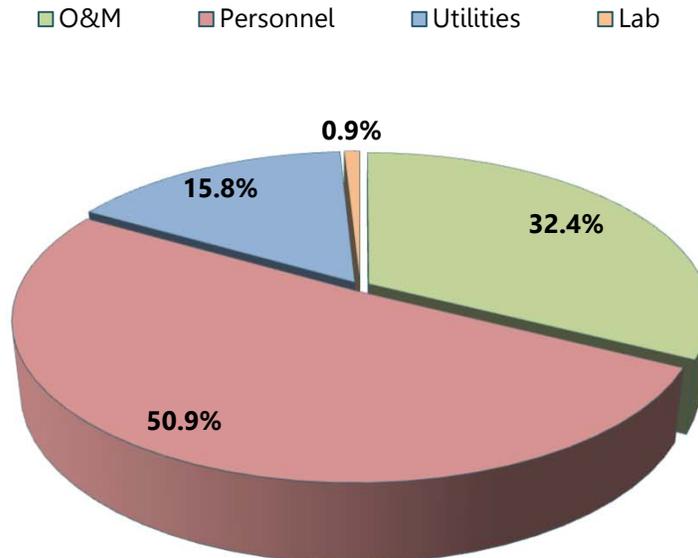
DISTRICT OPERATIONS

Operating Expenditures: RW

RW Expenditures: Year-to-Year Comparison



RW Expenditures by Category 2016-2017 Adopted Budget



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Expenditures: CS

	2015-2016 Projected	2015-2016 Adopted Budget	2016-2017 Adopted Budget	Increase (Decrease) from	
				2015-2016 Projected	2015-2016 Adopted Budget
CS					
Operations					
Maintenance & Supplies	798,020	814,306	816,184	18,164	1,878
Personnel	1,068,407	1,090,211	1,126,578	58,171	36,367
Utilities	105,203	107,350	108,373	3,170	1,023
Total CS	\$ 1,971,630	\$ 2,011,867	\$ 2,051,134	\$ 79,505	\$ 39,268

Personnel costs are the largest of the Collection System expenditures. This section of the District operates and maintains the Collection System which includes gravity sewer lines, force mains, and 18 pump stations. Collection System employees also maintain the District's reclaimed water distribution lines. Employees presently consist of 12 staff members under the management of Bill Cunningham who has been employed with the District for 36 years.

At 1.95% the overall increase in budgeted expenditures for Collection System is inline with the increase to the Western Cities CPI (consumer price index) from calendar year 2014 to calendar year 2015.

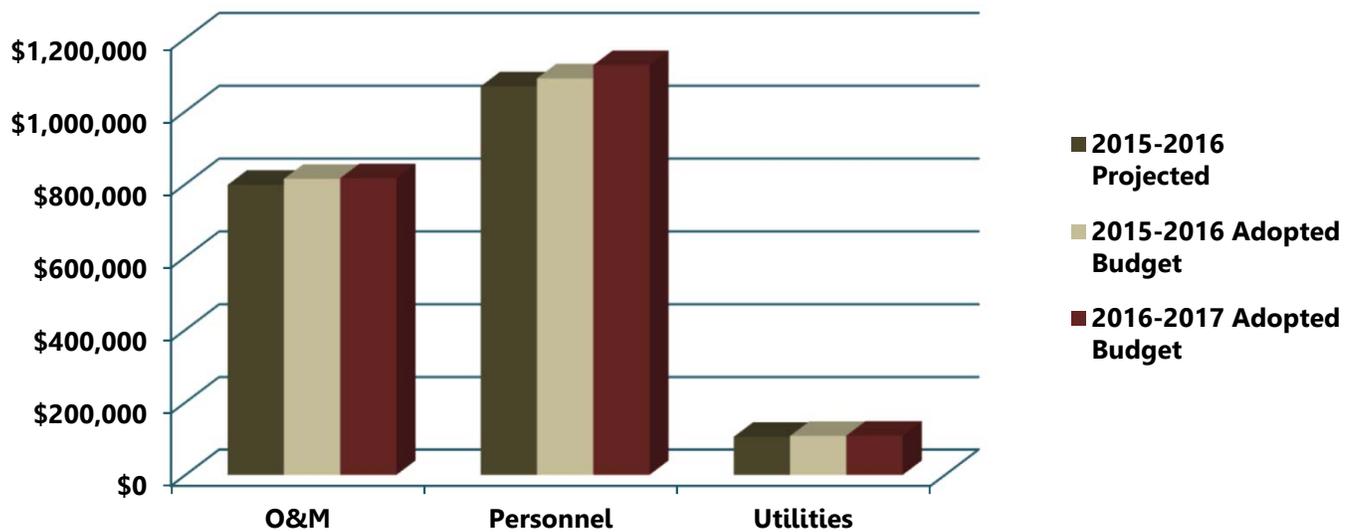
FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



DISTRICT OPERATIONS

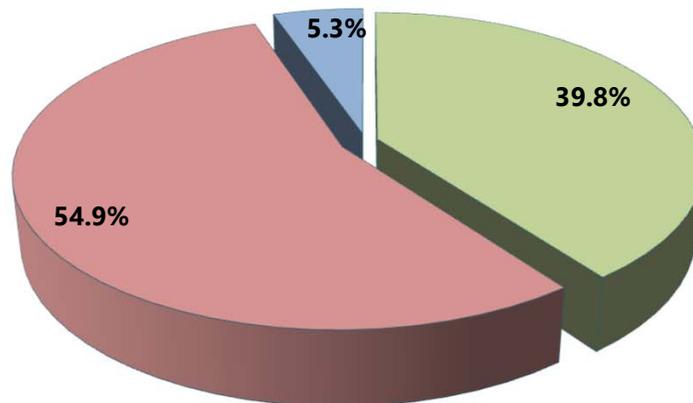
Operating Expenditures: CS

CS Expenditures: Year-to-Year Comparison



CS Expenditures by Category 2016-2017 Adopted Budget

■ O&M
 ■ Personnel
 ■ Utilities



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



DISTRICT OPERATIONS

Operating Expenditures: Billing

	2015-2016 Projected	2015-2016 Adopted Budget	2016-2017 Adopted Budget	Increase (Decrease) from	
				2015-2016 Projected	2015-2016 Adopted Budget
Billing					
Operations					
Maintenance & Supplies	125,563	128,126	83,215	(42,348)	(44,911)
Personnel	247,476	252,527	276,309	28,833	23,782
Utilities	17,248	17,600	17,776	528	176
Total Billing	\$ 390,287	\$ 398,253	\$ 377,300	\$ (12,987)	\$ (20,952)

This section presents all expenses attributable to billing and collection of user and availability fees. Personnel costs include three full-time staff members. The billing and collections process is currently managed by the Administrative Services team. A portion of the Administrative Services Manager and Assistant Administrative Services Manager salaries are allocated to the Billing category. The remainder of Administrative Services salaries are allocated to WWTP, RW and CS for duties consisting of common expense management, human resources and managing the District's information technologies.

The Billing department has implemented changes in procedures over the past couple of fiscal years to help streamline and improve efficiencies within the billing process. This year, District staff is requesting a shift in organizational structure to include a new position, Customer Service/Billing Supervisor. This addition will facilitate the proper allocation of duties and provide focused attention to billing and customer service issues.

Billing will continue to be overseen and expenses shared by all departments will continue to be centrally managed by the Administrative Services Manager, Hazel Cunningham, a 21-year employee of the District.

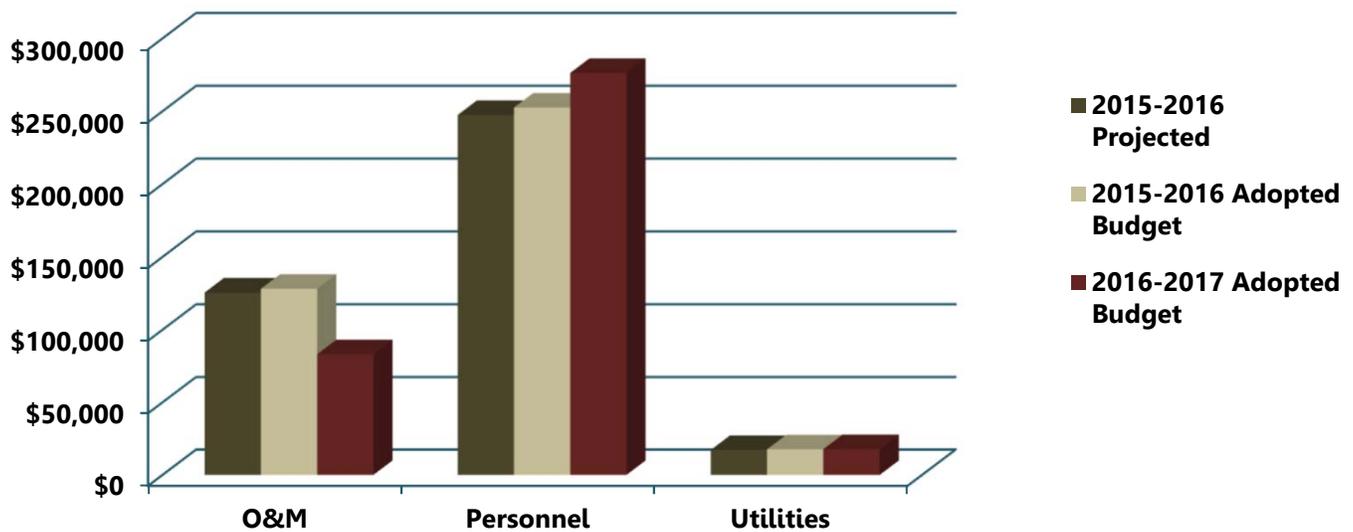
FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



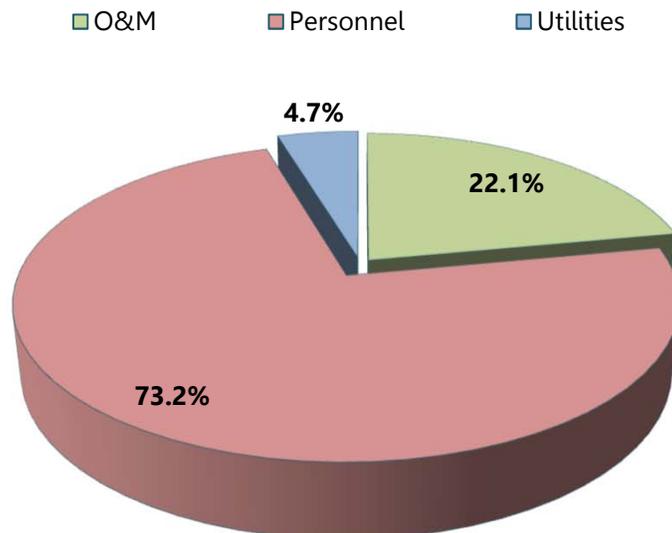
DISTRICT OPERATIONS

Operating Expenditures: Billing

Billing Expenditures: Year-to-Year Comparison



Billing Expenditures by Category 2016-2017 Adopted Budget



FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET

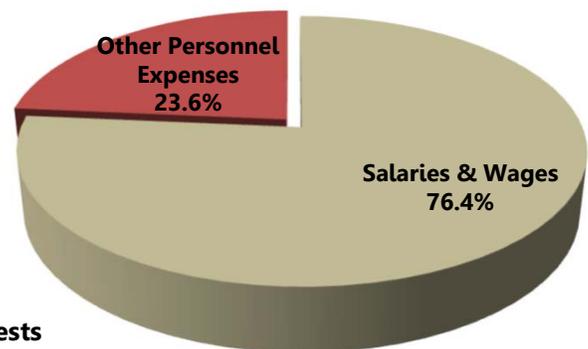
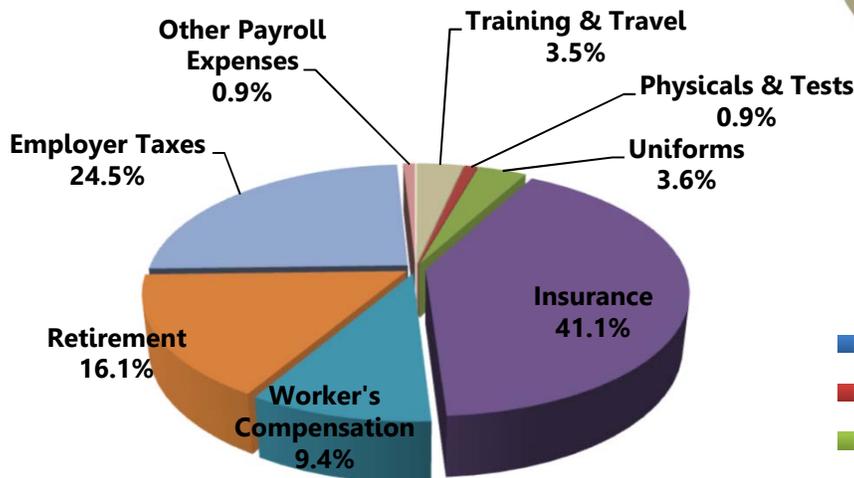


DISTRICT OPERATIONS

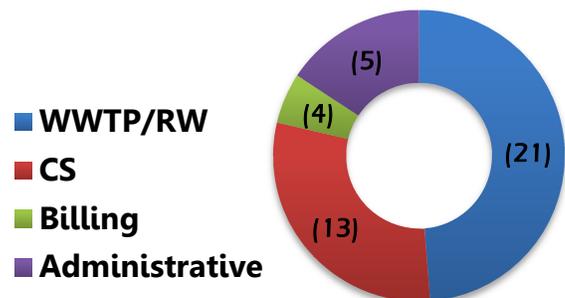
Operating Expenditures: Personnel

	2015-2016 Projected	2015-2016 Adopted Budget	2016-2017 Adopted Budget	Increase (Decrease) from	
				2015-2016 Projected	2015-2016 Adopted Budget
Personnel					
Salaries & Wages	2,832,578	2,890,386	3,001,690	169,112	111,304
Training & Travel	26,460	27,000	32,000	5,540	5,000
Physicals & Tests	8,600	8,775	8,863	263	88
Uniforms	32,218	32,875	33,094	876	219
Insurance	372,400	380,000	380,720	8,320	720
Worker's Comp	85,260	87,000	87,866	2,606	866
Retirement	139,644	142,494	148,810	9,166	6,316
Employer Taxes	209,516	213,792	227,679	18,163	13,887
Other Payroll Exp	7,840	8,000	8,080	240	80
Total Personnel	\$ 3,714,516	\$ 3,790,322	\$ 3,928,802	\$ 214,286	\$ 138,480

Personnel Expenses by Type



Base Wages by Category



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



CAPITAL OUTLAY

Discussion

Expenditures that provide the District with long-term benefit such as the purchase of major equipment, vehicles, construction projects, and other fixed assets are designated as Capital Outlay (Outlay). Most improvements to buildings, sewer infrastructure, and other core components of the sewer system designed to last more than one year are also considered Outlay. Construction projects, whether for new facilities or rehabilitation of existing facilities, which generate expenditures over many months and very often in multiple fiscal years are generally the most expensive of these purchases and therefore require the most planning.

Outlay is allocated to the General and Capital Funds (depending on classification) allowing for expenditures to be funded by appropriate revenue sources in accordance with applicable statutes. With regard to Outlay, Property Taxes are the primary source for funding Outlay required to repair, replace, or extend unit processes for ongoing operations. Separately, revenue from Connection Fees is intended to finance growth related projects. Growth projects are those which are intended to expand or update District unit processes to allow for flows generated by users being added to the sewer system as the District approaches build-out capacity.

The District must carefully consider the long-term implications and the probability of significant variables when constructing an Outlay plan. Multimillion dollar projects may require a significant cash reserve accumulated over many fiscal years, especially in the Capital Fund, where revenue fluctuates somewhat unpredictably year to year. As a result, the Capital Fund is not "balanced" like the General Fund and revenues may be more or less than expenditures in any given year.

Connection Fees, the primary resource for funding growth related Outlay within the Capital Fund, are collected when new sewer service agreements are executed and are dependent on the local construction industry. Revenue from Connection Fees has been fairly low for several years. However, it is clear, based on service agreements executed in the past two fiscal years that construction is continuing around the District. This has prompted another, albeit conservative, increase in budgeted Connection Fee revenue for the 2016-2017 fiscal year. This revenue source is finite and will be exhausted upon build-out within District boundaries.

Limited population growth, measured residential and commercial construction within the District, and the aging of District facilities and infrastructures have shifted the District's priorities with regard to Outlay. A much greater emphasis is placed on General Fund Outlay needed to maintain and improve ongoing operations, as opposed to Capital Fund Outlay needed to accommodate growth. With technology constantly evolving, District staff scrutinizes and analyzes the most efficient and advanced solutions available to update aging unit processes and the individual components of these processes. Additionally, the update, repair or rehabilitation of one process may directly impact the operation and efficiency of another process.

The Five-Year Capital Outlay Plan is revised annually. In order to develop and update this plan, staff considers multiple factors, including but not limited to need, cost, timing, and scheduling conflicts. The Plan is also impacted by projected cash flows driven, in part, by the District's ongoing desire to maintain a certain level of consistency in property tax assessments and/or rates for the mutual benefit of the District and its constituency. Staff has worked closely with its consultants to design projects which are flexible and have sufficient redundancy while maximizing cost effectiveness. Highlights of the Five-Year Capital Outlay Plan are presented on the page 22.

FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET

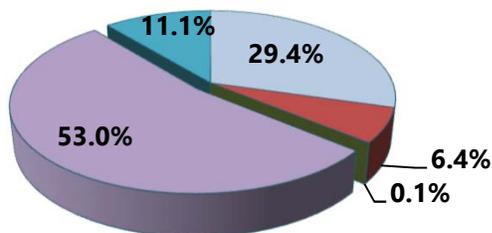


CAPITAL OUTLAY

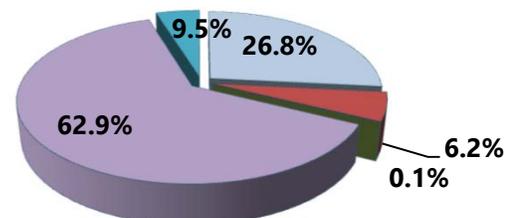
Revenues & Expenditures by Fund

	General Fund	Capital Fund	2016-2017 Adopted Budget: All Funds	2015-2016 Adopted Budget: All Funds
Revenues				
Property Taxes	1,796,128		1,796,128	1,642,207
Connection Fees		378,520	378,520	358,520
Other Income		3,500	3,500	3,500
Cash Reserves	2,151,431	2,096,382	4,247,813	2,953,887
Interfund Transfer	327,441	-	327,441	616,142
Total Revenues	\$ 4,275,000	\$ 2,478,402	\$ 6,753,402	\$ 5,574,256
Expenditures				
Capital Outlay				
Projects	3,523,000	1,000,000	4,523,000	3,763,125
Equipment	752,000		752,000	1,011,000
Total Expenditures	\$ 4,275,000	\$ 1,000,000	\$ 5,275,000	\$ 4,774,125
Excess of revenues over expenditures	\$ -	\$ 1,478,402	\$ 1,478,402	\$ 800,131

**2015-2016 Adopted Budget
Capital Outlay Funding by Source**



**2016-2017 Adopted Budget
Capital Outlay Funding by Source**



■ Property Taxes
 ■ Connection Fees
 ■ Other Income
 ■ Cash Reserves
 ■ Interfund Transfer

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



CAPITAL OUTLAY

Five-Year Capital Outlay Plan Highlights

- Staff has allocated just over \$750,000 in the first year of this five-year plan to the purchase of equipment items which will replace aged pumps, valves, generators, and building components in phases or on an "as needed" basis. Most of these equipment items will not be replaced until they fail or breakdown, but in the interest of being prepared, 40% of all equipment expenses identified with the plan have been front loaded to the first year of the plan. Because of redundancies already in place within the District system, new equipment can be ordered without adversely affecting the collection and treatment of wastewater in many cases.
- After extensive review and analysis of District needs, staff is proposing to combine four projects into one large project designed to overhaul a handful of WWTP processes. Plans to modify plant's influent screens and pump station have now been combined with three other projects including replacement of the District's centrifuges, the chlorine scrubber and the plant water system. This project, referred to as the Solids Handling and Headworks Improvement Project is estimated to cost up to \$6,000,000. Engineering began on this project in the spring of 2016.
- The previously mentioned Solids Handling and Headworks Improvement Project will be the most involved and financially demanding project in recent history. As a result, the ASR Well Vaults project included in last year's plan, but not yet started, has been pushed back to begin in the 2017-2018 fiscal year in an attempt to spread the spending over multiple fiscal years and appropriately manage the cash flow needed to fund these two projects expected to cost the District just under ten million dollars in total.
- The 2016-2017 Adopted Capital Outlay Budget includes a total of \$5,275,000 made up of \$752,000 in anticipated equipment purchases and \$4,523,000 in expenses for projects either already underway at the time of this budget or planned to begin in the budget year. The largest of these projects, mentioned previously, is projected to cost a total of \$6,000,000 over 24 months with \$3,350,000 of spending planned to occur in the 2016-2017 fiscal year.

FOUNTAIN HILLS SANITARY DISTRICT FISCAL YEAR 2016-2017 ADOPTED BUDGET



CAPITAL OUTLAY

Project Descriptions [Anticipated Start Dates; Total Project Cost] (Includes only projects with anticipated costs in excess of \$500,000)

Solids Handling and Headworks Improvements [April 2016, \$6,000,000]: This project combines what remains to be accomplished from the project previously known as Influent Pump Station and Screen Modifications with three other projects. These three projects include replacement of the District's centrifuges (both thickening and dewatering), replacement of and/or modifications to the plant water system, and replacement of the chlorine scrubber.

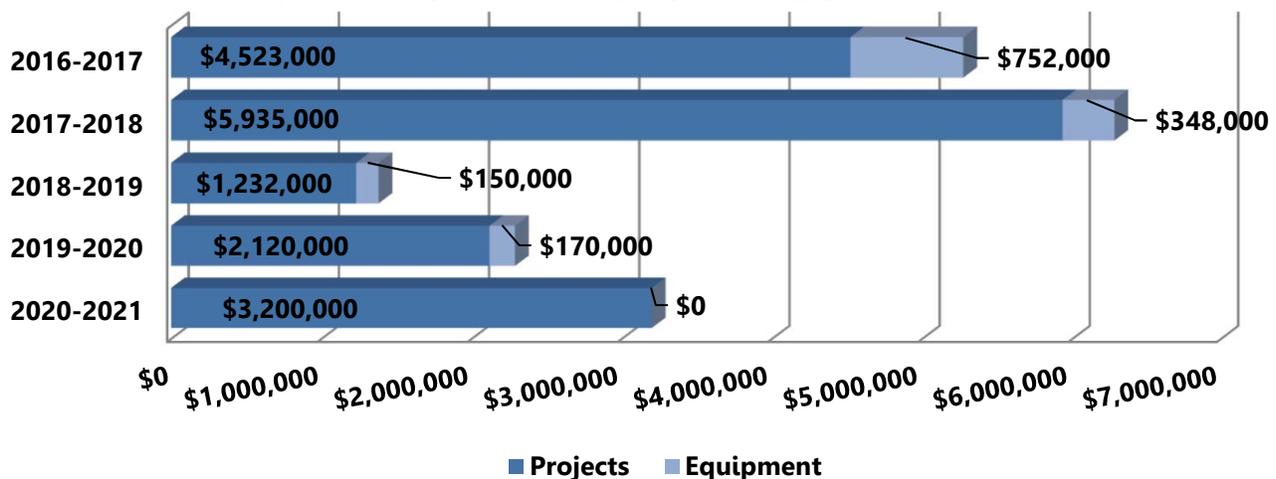
ASR Well Vault Replacement/Piping to Lake/Distribution Piping [July 2017; 3,500,000]: This project will replace the three well vaults for ASR Wells 1, 2, and 4 in Fountain Park. These vaults are made of coated steel and have corroded extensively. At least two of the three vaults can be replaced with above-ground buildings which can be incorporated with bathroom facilities as an added amenity to Fountain Park. This project will also slip line or replace the ductile iron pipe recharge and recovery lines in Fountain Park which have become corroded as a result of electrolysis from the wet soil.

Rehab and Expand WWTP Control Bldg [July 2018; \$500,000]: This project will rehabilitate and expand a building which was originally constructed in 1974 and modified in 1993. This building currently houses a control room for the WWTP, as well as a lunch room, shower and locker room for the operators. Portions of this building are aging and/or are outdated and extra space is required. It is expected that a second story will be added to the building to accommodate the necessary renovations.

Digester No. 3/Remove Digester Berm [January 2019, \$2,000,000]: This project will add a third Digester to allow for additional capacity as well as redundancy.

Aeration Basin No. 3 [July 2020; \$2,500,000]: This project will add the third aeration basin specified in the District's master plan.

Anticipated Capital Outlay Spending per Fiscal Year



FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



CAPITAL OUTLAY

Five-Year Capital Outlay Plan (Chronological Grid - Projects)

PROJECT DESCRIPTION	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
PS 14 Upgrade	\$ 162,000	\$ -	\$ -	\$ -	\$ -
WWTP & RWTDD Network Upgrade	\$ 15,000	\$ -	\$ -	\$ -	\$ -
Sanitary Sewer Rehab Project	\$ 320,000	\$ -	\$ -	\$ -	\$ -
Improvements	\$ 3,350,000	\$ 2,385,000	\$ -	\$ -	\$ -
Rehab ASR Well No 3	\$ 350,000	\$ -	\$ -	\$ -	\$ -
Other Outlay to Include*	\$ 326,000	\$ -	\$ -	\$ -	\$ -
ASR Well Vault Rep/Piping to Lake/Product					
H2O Piping/Landscaping	\$ -	\$ 2,975,000	\$ 525,000	\$ -	\$ -
WWTP Tertiary Filter Exp	\$ -	\$ 200,000	\$ -	\$ -	\$ -
Other Outlay to Include**	\$ -	\$ 375,000	\$ -	\$ -	\$ -
Rehab and Expand WWTP Control Bldg	\$ -	\$ -	\$ 375,000	\$ 125,000	\$ -
Machine Shop Bldg	\$ -	\$ -	\$ 300,000	\$ 100,000	\$ -
Other Outlay to Include***	\$ -	\$ -	\$ 32,000	\$ -	\$ -
Digester #3/Remove Digester Berm	\$ -	\$ -	\$ -	\$ 1,875,000	\$ 625,000
Firerock RW Pump & Valve Rep Phase III	\$ -	\$ -	\$ -	\$ 20,000	\$ -
Aeration Basin #3	\$ -	\$ -	\$ -	\$ -	\$ 2,500,000
Direct Potable Reuse Study	\$ -	\$ -	\$ -	\$ -	\$ 75,000

*Other Outlay Including: PS Wetwell Rehab Phase II; Sodium Bisulfite Storage; Security (WWTP/AWTF); Lighting Upgrade WWTP; Materials Storage Bins; Saguaro Gate; Rehab RV Driveway; PS #5 Repairs; Eff Pump 805 VFD Replacement; Parts Building Evap Cooler; Front Gate & Controls

**Other Outlay Including: Cover Area between Shop and Lab; P.S. Wetwell Rehab Phase III; Paint Perimeter Wall; Firerock RW Pump & Valve Rep Phase I; Effluent Line Valve Replacement & Additions

***Other Outlay Including: Replace Lab Flooring; Replace Shop Floor Coating; Firerock RW Pump & Valve Rep Phase II

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



CAPITAL OUTLAY

Five-Year Capital Outlay Plan (Chronological Grid - Equipment)

DESCRIPTION	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
ASR Well Equipment Replacement	\$ 100,000	\$ -	\$ -	\$ -	\$ -
Sewer Network Upgrade	\$ 80,000	\$ -	\$ -	\$ -	\$ -
Other Unspecified	\$ 200,000	\$ -	\$ -	\$ -	\$ -
Safety Equipment	\$ 20,000	\$ -	\$ -	\$ -	\$ -
Parts Cleaner	\$ 15,000	\$ -	\$ -	\$ -	\$ -
Portable Railing System	\$ 5,000	\$ -	\$ -	\$ -	\$ -
P.S. Generator Replacements Phase I	\$ 60,000	\$ -	\$ -	\$ -	\$ -
SRC VFD Replacement Phase II	\$ 25,000	\$ -	\$ -	\$ -	\$ -
Monitor Well Equipment Replacements	\$ 20,000	\$ -	\$ -	\$ -	\$ -
Restore ASR Well #5 Supply Pump	\$ 7,000	\$ -	\$ -	\$ -	\$ -
V-Smart Valve Control	\$ 10,000	\$ -	\$ -	\$ -	\$ -
Light Plant	\$ 15,000	\$ -	\$ -	\$ -	\$ -
Tow Behind Generator	\$ 15,000	\$ -	\$ -	\$ -	\$ -
WWTP Effluent Pump Phase I	\$ 40,000	\$ -	\$ -	\$ -	\$ -
AWTF Pump Replacement Phase I	\$ 40,000	\$ -	\$ -	\$ -	\$ -
S-19	\$ 75,000	\$ -	\$ -	\$ -	\$ -
S-22	\$ 25,000	\$ -	\$ -	\$ -	\$ -
P.S. Generator Replacements Phase II	\$ -	\$ 60,000	\$ -	\$ -	\$ -
WWTP Effluent Pump Phase II	\$ -	\$ 40,000	\$ -	\$ -	\$ -
AWTF Pump Replacement Phase II	\$ -	\$ 40,000	\$ -	\$ -	\$ -
Hart Communicator	\$ -	\$ 7,000	\$ -	\$ -	\$ -
ATV for Wash Inspections	\$ -	\$ 11,000	\$ -	\$ -	\$ -
Replace Extenda-Jet	\$ -	\$ 30,000	\$ -	\$ -	\$ -
Safety Equipment	\$ -	\$ 20,000	\$ -	\$ -	\$ -
Replace 2 Pickups and S-17	\$ -	\$ 90,000	\$ -	\$ -	\$ -
Admin Bldg Paint and Flooring	\$ -	\$ 50,000	\$ -	\$ -	\$ -
P.S. Generator Replacements Phase III	\$ -	\$ -	\$ 60,000	\$ -	\$ -
WWTP Effluent Pump Phase III	\$ -	\$ -	\$ 40,000	\$ -	\$ -
AWTF Pump Replacement Phase III	\$ -	\$ -	\$ 40,000	\$ -	\$ -
Street Sweeper	\$ -	\$ -	\$ 10,000	\$ -	\$ -
P.S. Generator Replacements Phase IV	\$ -	\$ -	\$ -	\$ 60,000	\$ -
Portable Equipment Lift	\$ -	\$ -	\$ -	\$ 30,000	\$ -
JD 304k Loader	\$ -	\$ -	\$ -	\$ 80,000	\$ -

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



TAXES & FEES

Fees Summary

		2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	% Change	Sch.
Sewer	Residential (Quarterly)	\$66.00	\$66.00	\$72.00	\$72.00	\$75.00	4.2%	1A
User	Hotel/Motel unit (Quarterly)	\$30.00	\$30.00	\$31.50	\$31.50	\$31.50	0.0%	1B
Fees	Commercial	varies	varies	varies	varies	varies		1D
	Commercial Minimum (Qtrly)	\$90.00	\$90.00	\$96.00	\$96.00	\$99.00	3.1%	
	Schools (Quarterly)	\$270	\$270	\$270	\$270	\$270	0.0%	1C
Connection	Hook-up Fee	\$400	\$400	\$400	\$400	\$400	0.0%	2
Fees	Lateral Fee	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	0.0%	3
	Capacity Fee Residential (Per unit)	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	0.0%	4A
	Capacity Fee Hotel/Motel (Per unit)	\$4,145	\$4,145	\$4,145	\$4,145	varies		4B
	Capacity Fee Non-residential (Per unit)	varies	varies	varies	varies	varies		4C
	Shea Corridor Surcharge (Non-residential varies)	\$1,260	\$1,260	\$1,260	\$1,260	\$1,260	0.0%	4D
Other	Availability Fee	\$84	\$84	\$84	\$84	\$84	0.0%	5
	Project Review/Inspection Fee (Per Lineal Foot)	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	0.0%	6
Charges	plus (per pump station)	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	0.0%	
	Property Taxes (per \$100 in AV)	\$0.7069	\$0.7984	\$0.8007	\$0.7491	\$0.7413	-1.0%	
	Reclaimed Water (per acre foot)	\$380	\$380	\$380	\$380	\$380	0.0%	7
	Encroachments/Abandonments	\$25/\$75	\$25/\$75	\$25/\$75	\$25/\$75	\$25/\$75		8
	Sewer User Establishment Fee	\$30	\$30	\$30	\$30	\$30	0.0%	1E
	Public Records (Copies/Postage)	varies	varies	varies	varies	varies		
Penalties and Interest	Interest on late payments	10%	10%	10%	10%	10%	0.0%	1E5b
	Sewer User Fee Late charge	\$25	\$25	\$25	\$25	\$25	0.0%	1E5a
	Non-sufficient funds fee	\$30	\$30	\$30	\$30	\$30	0.0%	9
	Failure to obtain Service Agr.	\$750	\$750	\$750	\$750	\$750	0.0%	4E2
	Lien Fee	\$100	\$100	\$100	\$150	\$150	0.0%	1E5c
	User Service Discontinue Fee	actual costs		1E5e				
	User Fee Deposit	\$132	\$132	\$144	\$144	\$144	0.0%	1E5d
	Consumer Price Index Change*	1.30%	2.70%	1.80%	1.30%	1.80%		

*From data published by the U.S. Department of Labor, Bureau of Labor Statistics (<http://www.bls.gov/data/>)

FOUNTAIN HILLS SANITARY DISTRICT

FISCAL YEAR 2016-2017

ADOPTED BUDGET



TAXES & FEES

Property Tax Discussion & Historical Data

Title 48 of the Arizona Revised Statutes authorizes the Fountain Hills Sanitary District to certify to the Board of Supervisors "the amount required for payment of principal and interest on bonds...the amount necessary to maintain, operate, extend and repair the sewerage system...and the treatment plants of the district during the ensuing year". Upon certification, the Board of Supervisors levies and causes to be collected a tax on real property and mobile homes within the District.

Taxes are levied on the assessed valuation of property as determined by the Maricopa County Assessor's Office (MCAO). There are two types of assessed valuation, primary and secondary. By statute, primary valuation can only be increased by a specified amount every year, while secondary valuation can be raised according to market conditions. The District's property tax rate is assessed on secondary valuation, or "full-cash value". For the 2016 tax year, MCAO increased secondary valuations of residential real property in the District by 7.5% compared to the 2015 tax year.

This 2016-2017 Adopted Budget certifies that the District will require a tax levy generating \$3,900,000 to "maintain, operate, extend and repair the sewerage system...and treatment plants" during the 2016-2017 fiscal year. The tax rate is determined by dividing the requested tax levy of \$3,900,000 by 1% of the Net Assessed Value (NAV) provided by the MCAO. The NAV for the 2016 tax year is \$521,548,179, an increase of 7.5% over the 2015 tax year. This amount is subject to change prior to the Assessor's completion of the 2016 tax levy. Based on this figure, the District's tax rate is estimated at 0.7413 per \$100 of assessed value for 2016-2017.

Property Tax Rates (per \$100 of AV) and Property Tax Assessments
2006-2016

