

FOUNTAIN HILLS SANITARY DISTRICT



**FISCAL YEAR 2019-2020
ADOPTED BUDGET**

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Definitions of Terms & Abbreviations

AWTF: Advanced Water Treatment Facility where reclaimed water from the wastewater treatment plant is further treated for recharge.

ASR: Aquifer Storage and Recovery, referring to wells designated for District storage of treated reclaimed water.

Capital Fund: Capital Fund resources are designated for the completion of construction projects and the purchase of assets which are necessitated by District growth (expansion or improvement of systems and facilities necessary to operate at build-out capacity and comply with new regulations).

Contingency Fund: A fund that protects against revenue shortfalls, addresses temporary cash flow shortages and covers extraordinary expenditures occurring in the event of an emergency.

CPI: Consumer Price Index

CS: Collection System, referring to District infrastructure established for the collection and transport of District wastewater to the WWTP.

Debt Service Fund: The fund used to account for financing used for improvement projects that cannot be financed from current or accumulated fund balances. This fund is currently not active as the District has no debt financing at this time.

FY: Fiscal Year, the District's fiscal year runs from July 1 to June 30.

FERR Fund: Facilities & Equipment Replacement Reserve Fund provides reserve resources needed for planned or unplanned expenditures specifically for replacement, high-cost repair, or refurbishment of existing facilities & equipment.

General Fund: The District's operational fund. This fund accounts for resources and expenditures used for the day-to-day activities of the District.

Interfund Transfer: The transfer of monies between accounting funds, such as from the Contingency Fund to the General Fund, reducing the cash balance of one Fund and increasing that of another.

Net Assessed Value (NAV): Property values set by Maricopa County for the purpose of assessing property taxes.

RW: Reclaimed Water, incorporating the processes, facilities and infrastructure needed to treat, distribute and dispose of reclaimed water produced by the District's wastewater treatment processes.

SFI: System and Facility Improvements, expenditures that provide the District with long-term benefit such as major equipment purchases, vehicles, construction projects, and other fixed assets are designated as SFI. These expenditures may be funded with General, Capital or FERR Fund resources as appropriate.

Shared Expenditures: Administrative and overhead expenditures not directly associated with billing that are allocated pro rata to the WWTP, RW, CS and Billing expense categories.

OVERVIEW

Introduction

Perspective

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 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 each year. 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 addresses the District's monetary requirements for both short-term and long-term future spending.

The financial accounts of the District are organized into three funds: General, Capital, and Debt Service. Each of these three funds is accounted for with a separate set of self-balancing accounts. The Contingency Fund and the Facilities & Equipment Replacement Reserve (FERR) Fund are designated reserves within the General Fund. The District does not currently carry any bonded indebtedness. As a result, the Debt Service Fund has zero activity and a zero balance and is not included in budget reporting.

This budget does not include revenues or expenditures related to providing service to the State Trust Land located adjacent to the District. 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 any activity designed to expand or improve District facilities and unit processes as indicated by the District's current Master Plan, applicable government regulations and advancements in the areas of safety and technology.

Presentations & Forecasts

The anticipated revenues and expenditures of all funds collectively are presented on the next page. In the event that the District's General Fund experiences a cash surplus at the end of fiscal year 2018-2019, this surplus is included in the individual fund reports on pages 5-8 as part of "Beginning Budgetary Fund Balance".

Individual fund presentations in this section include the expected beginning and ending budgetary fund balance for each fund along with expenditures encumbered in the 2018-2019 fiscal year (prior year) that are expected to carry over to the 2019-2020 budget year.

Projections for the District's next five years and illustrations of projected cash flows and cash balances by funds are included at the end of this section.

Sections II, III, & IV present a more detailed discussion of the 2019-2020 Adopted Budget forecast of revenues, operating expenditures, and anticipated spending for System and Facility Improvements (SFI) respectively.

OVERVIEW

Introduction

Highlights

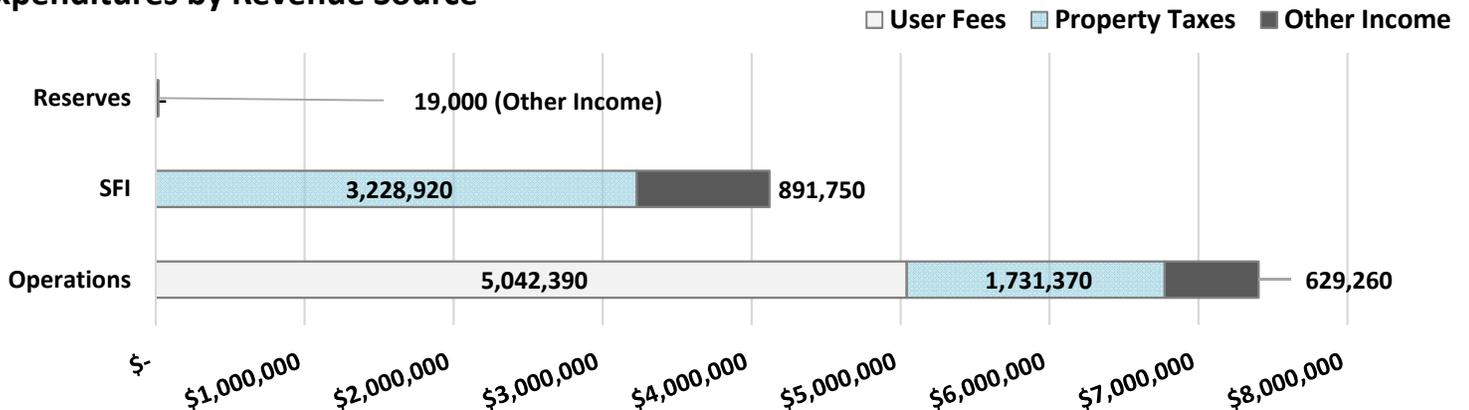
-  As presented in this Adopted Budget, the District requests a property tax assessment of \$4,960,290 for the 2019 tax year. The calculated property tax rate of 0.9813 per \$100 of net assessed value (NAV) is consistent with the 2018-2019 adopted budget. The 2018 tax rate is updated on page 12 to reflect Maricopa County's final assessed values which is published in August of each year, after the budget process is complete. Although increases to Limited Property Valuations are subject to a maximum increase by law, various factors such as disputes, resolutions and special circumstances will impact NAV so that there is not a direct correlation between the percentage change in limited property valuation and the percentage change in NAV. The NAV presented in Maricopa County's preliminary report for the 2019 tax year indicates an increase of 6.09% within the District which produces \$283,820 in additional revenue to the District while the tax rate remains consistent year-to-year. Despite the application of a consistent tax rate, changes in individual property NAVs may vary.
-  Similar to the property tax rate, sewer user fees will remain consistent with current rates. No sewer user fee increase is included with the FY budget. Increases in sewer user fee revenues are a result of new customers added to the District due to recent development within Town.
-  This Budget will increase the budget for operating expenditures by 3% over the 2018-2019 adopted budget. Considering the addition of two new employees and the potential cost of conducting an election, this increase is considered very reasonable by the District.
-  Cash reserves accumulated by the District in prior years have been significantly depleted by the Solids Handling Project completed by the District in FY '18-'19. This depleted cash position served to emphasize the importance that District staff be mindful in planning for large expenditures in this and future budget years. By introducing the FERR Fund last fiscal year, the District took an important step to facilitate its ability to fund the current and future replacement of aging facilities and equipment. Planned System and Facility Improvement (SFI) expenditures for the ongoing operation and maintenance of the District's existing systems over the next five years will require spending of just over \$17.6 million. Reserve funds are needed to accommodate this necessary spending without dramatic temporary or permanent increases to District revenue sources.

OVERVIEW

Revenues & Expenditures All Funds

	General Fund			Capital Fund	2019-2020 Adopted Budget All Funds	2018-2019 Adopted Budget All Funds	%
	Operations	FERR	Contingency				
Revenues							
Property Taxes	4,960,290				4,960,290	4,676,470	6.1%
Sewer User Fees	5,042,390				5,042,390	4,967,790	1.5%
Connection Fees	30,000			849,000	879,000	567,700	54.8%
Reclaimed Water	499,000				499,000	569,800	-12.4%
Other Income	100,260		19,000	42,750	162,010	128,110	26.5%
Interfund Transfer	(1,025,920)	1,000,000	25,920	-	-	-	0.0%
Total Revenues	\$ 9,606,020	\$ 1,000,000	\$ 44,920	\$ 891,750	\$ 11,542,690	\$ 10,909,870	5.8%
Expenditures							
Operating							
WWTP	2,600,780				2,600,780	2,682,340	-3.0%
RW	1,989,460				1,989,460	1,994,490	-0.3%
CS	2,385,890				2,385,890	2,092,150	14.0%
Billing	426,890				426,890	394,960	8.1%
Subtotal Operating	7,403,020				7,403,020	7,163,940	3.3%
System & Facility Improvements	2,203,000	517,000		1,407,000	4,127,000	2,690,000	53.4%
Total Expenditures	\$ 9,606,020	\$ 517,000	\$ -	\$ 1,407,000	\$ 11,530,020	\$ 9,853,940	17.0%
Excess of revenues over expenditures	\$ -	\$ 483,000	\$ 44,920	\$ (515,250)	\$ 12,670	\$ 1,055,930	

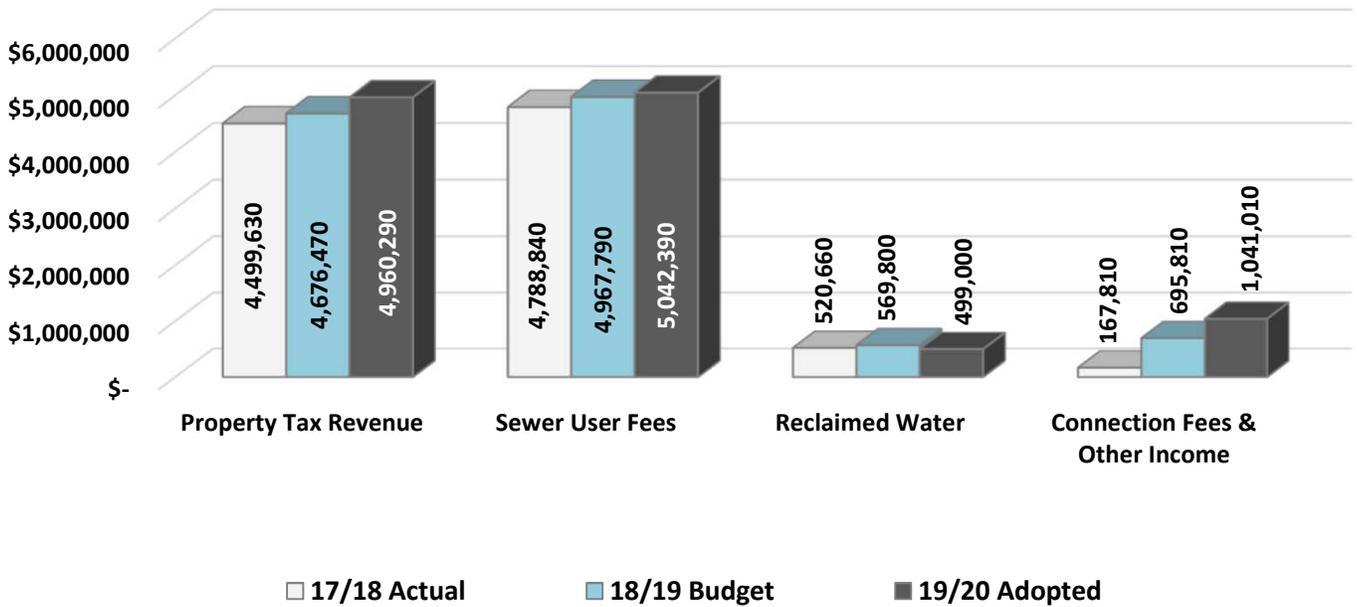
Expenditures by Revenue Source



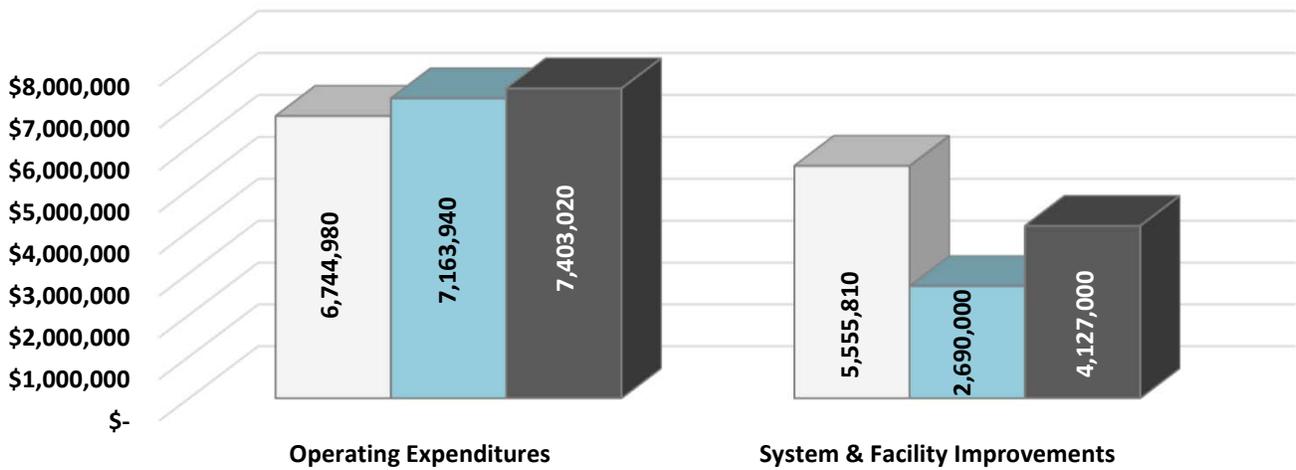
OVERVIEW

Three Year Comparison All Funds

Revenues



Expenditures



OVERVIEW

Budgetary Fund Balance General Fund - Operations

	Operations	System & Facility Improvements	2019-2020 Adopted Budget Operations	2018-2019 Adopted Budget Operations	% Change
Beginning Budgetary Fund Balance*	50,000	758,390	808,390	2,218,980	-63.6%
Revenues					
Property Taxes	1,731,370	3,228,920	4,960,290	4,676,470	6.1%
Sewer User Fees	5,042,390		5,042,390	4,967,790	1.5%
Connection Fees	30,000		30,000	20,000	50.0%
Reclaimed Water	499,000		499,000	569,800	-12.4%
Other Income	100,260		100,260	95,610	4.9%
Interfund Transfer		(1,025,920)	(1,025,920)	(1,168,810)	
Total Revenues	\$ 7,403,020	\$ 2,203,000	\$ 9,606,020	\$ 9,160,860	4.9%
Expenditures					
Operating					
Budget Year	7,403,020		7,403,020	7,163,940	3.3%
Prior Year (Encumbered)*	50,000		50,000	244,150	-79.5%
Subtotal Operating	7,453,020		7,453,020	7,408,090	0.6%
System & Facility Improvements					
Budget Year		2,203,000	2,203,000	1,996,920	10.3%
Prior Year (Encumbered)*		758,390	758,390	1,974,830	
Subtotal SFI	-	2,961,390	2,961,390	3,971,750	-25.4%
Total Expenditures	\$ 7,453,020	\$ 2,961,390	\$ 10,414,410	\$ 11,379,840	-8.5%
Excess of revenues over expenditures	\$ (50,000)	\$ (758,390)	\$ (808,390)	\$ (2,218,980)	63.6%
Ending Budgetary Fund Balance	\$ -	\$ -	\$ -	\$ -	

* Beginning Fund Balances and Prior Year (Encumbered) amounts are estimated and include only the portion of encumbered amounts that originate from the Prior Year (FY '18-'19) budget and are expected to be encumbered by June 30, 2019. Current Year (FY '19-'20) budget amount are not included in these figures.

OVERVIEW

Budgetary Fund Balance General Fund - Reserves*

	FERR	Contingency	2019-2020 Adopted Budget Reserves	2018-2019 Adopted Budget Reserves	% Change
Beginning Budgetary Fund Balance	1,208,900 **	1,931,360	3,140,260	2,062,950	52.2%
Revenues					
Other Income		19,000	19,000	10,000	90.0%
Interfund Transfer	1,000,000	25,920	1,025,920	1,168,810	-12.2%
Total Revenues	\$ 1,000,000	\$ 44,920	\$ 1,044,920	\$ 1,178,810	-11.4%
Expenditures					
System & Facility Improvements Budget Year Prior Year (Encumbered)	517,000		517,000	275,000	88.0%
Total Expenditures	\$ 517,000	\$ -	\$ 517,000	\$ 275,000	88.0%
Excess of revenues over expenditures	\$ 483,000	\$ 44,920	\$ 527,920	\$ 903,810	-41.6%
Ending Budgetary Fund Balance	\$ 1,691,900	\$ 1,976,280	\$ 3,668,180	\$ 2,966,760	23.6%

*The District's FERR & Contingency Funds are designated by District policy to accumulate reserves for the ongoing need to repair and/or replace District assets as they reach the end of their useful lives (FERR) and to protect against revenue shortfalls or unanticipated yet necessary expenditures (Contingency). Revenue Sources for these reserves include budget surplus carried forward from prior year(s) and planned transfers from the General Fund.

Note: Estimated positive budget variance from General Fund at '18-'19 FYE is included in FERR Budgetary Fund Balance.

OVERVIEW

Budgetary Fund Balance Capital Fund*

	Capital Fund	2019-2020 Adopted Budget Capital Fund	2018-2019 Adopted Budget Capital Fund	% Change
Beginning Budgetary Fund Balance	5,811,740	5,811,740	4,598,400	26.4%
Revenues				
Connection Fees	849,000	849,000	547,700	55.0%
Other Income	42,750	42,750	22,500	90.0%
Total Revenues	\$ 891,750	\$ 891,750	\$ 570,200	56.4%
Expenditures				
System & Facility Improvements				
Budget Year	1,407,000	1,407,000	418,080	236.5%
Prior Year (Encumbered)*	-	-	434,690	0.0%
Total Expenditures	\$ 1,407,000	\$ 1,407,000	\$ 852,770	65.0%
Excess of revenues over expenditures	\$ (515,250)	\$ (515,250)	\$ (282,570)	-82.3%
Ending Budgetary Fund Balance	\$ 5,296,490	\$ 5,296,490	\$ 4,315,830	22.7%

*The District's Capital Fund collects revenues from new sewer service connections to fund projects designed to expand or improve the District's systems and facilities.

Revenue Sources Include:

- > Connection Fees
- > Lateral Fees
- > Other Miscellaneous

Expenditures Include:

- >New Construction
- >SFI greater than \$5,000 for addition, expansion, or update to accommodate additional users/flow
- >Additions or improvements necessitated by increased regulatory requirements such as advancements in treatment, safety, or technology.

* Beginning Fund Balances and Prior Year (Encumbered) amounts are estimated and include only the portion of encumbered amounts that originate from the Prior Year (FY '18-'19) budget and are expected to be encumbered by June 30, 2019. Current Year (FY '19-'20) budget amount are not included in these figures.

OVERVIEW

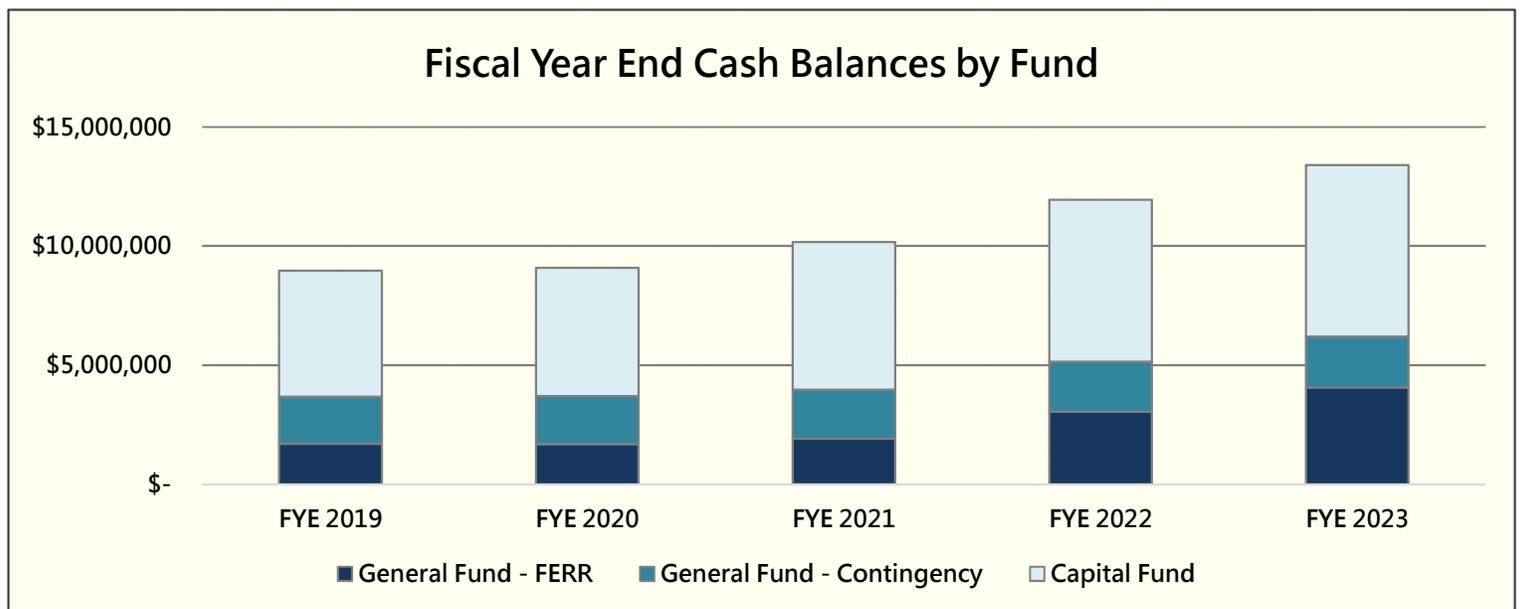
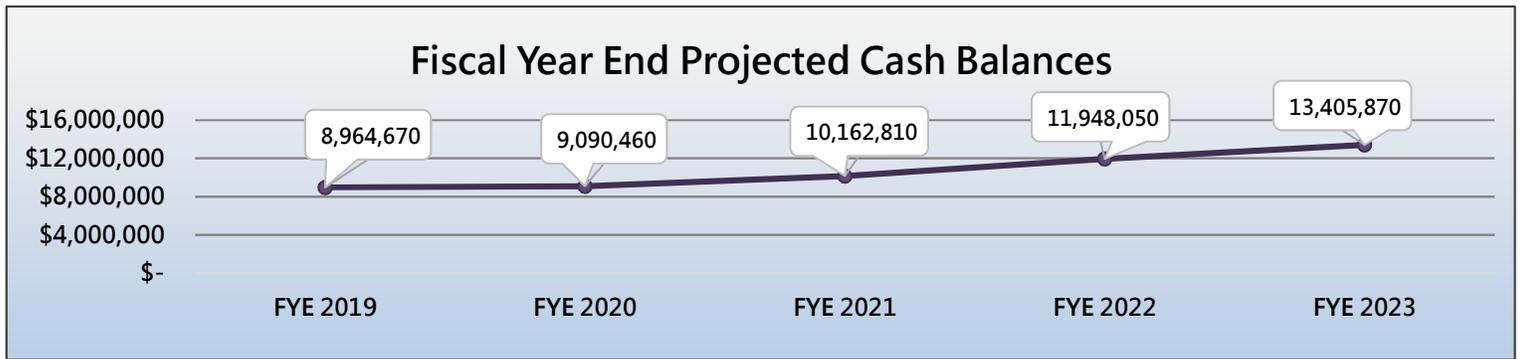
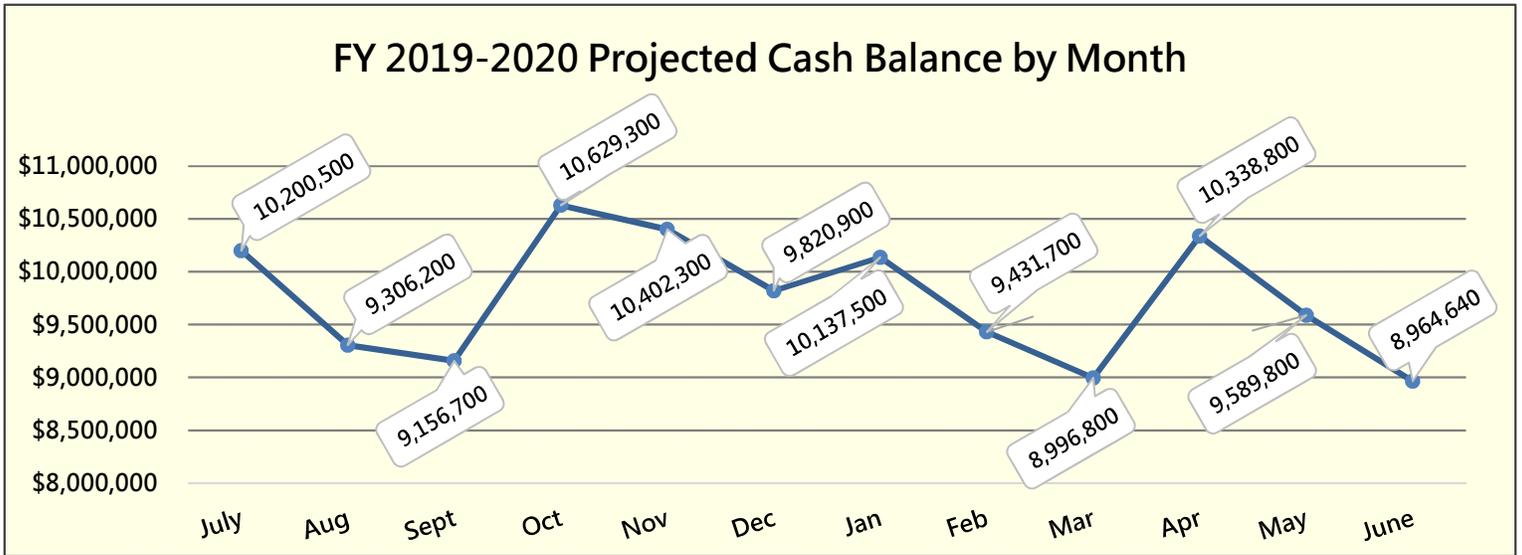
Five-Year Budget Projection All Funds

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Beginning Budgetary					
Fund Balance	\$ 9,760,390	\$ 8,964,670	\$ 9,090,460	\$ 10,162,816	\$ 11,948,060
<i>General Fund</i>	3,948,650	3,668,180	3,701,370	3,965,146	5,137,330
Operating*	808,390	-	-	-	-
FERR	1,208,900	1,691,900	1,685,560	1,909,020	3,040,080
Contingency	1,931,360	1,976,280	2,015,810	2,056,126	2,097,250
<i>Capital Fund</i>	5,811,740	5,296,490	5,389,090	6,197,670	6,810,730
Revenues					
Property Taxes	4,960,290	5,158,700	5,365,050	5,526,000	5,526,000
User Fees	5,042,390	5,222,450	5,222,450	5,402,520	5,402,520
Connection Fees	879,000	879,000	791,100	711,990	711,990
Reclaimed Water	499,000	548,900	548,900	521,455	469,310
Interest & Other	162,010	162,810	163,630	164,450	165,300
Total Revenues	11,542,690	11,971,860	12,091,130	12,326,420	12,275,120
Expenditures*					
Operating Expenditures	7,453,020	7,514,070	7,626,780	7,741,180	7,857,300
System & Facility Improvements	4,368,390	3,987,000	3,085,000	2,520,000	2,600,000
FERR	517,000	345,000	307,000	280,000	360,000
Total Expenditures	12,338,410	11,846,070	11,018,780	10,541,180	10,817,300
Ending Budgetary					
Fund Balance	\$ 8,964,670	\$ 9,090,460	\$ 10,162,810	\$ 11,948,060	\$ 13,405,880
<i>General Fund</i>	3,668,180	3,701,370	3,965,146	5,137,330	6,201,190
Operating	-	-	-	-	-
FERR	1,691,900	1,685,560	1,909,020	3,040,080	4,061,990
Contingency	1,976,280	2,015,810	2,056,126	2,097,250	2,139,200
<i>Capital Fund</i>	5,296,490	5,389,090	6,197,670	6,810,730	7,204,690

*Includes "Prior-Year (Encumbered)" from pages 5 & 7.

OVERVIEW

Projected Cash Balances All Funds



REVENUES

Taxes & Fees Overview **All Funds**

Perspective

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 each year, while secondary valuation can be raised according to market conditions. Although the District's property tax rate is considered a secondary tax, the "full-cash value" or secondary value does not have a direct correlation to the calculation of District property tax assessments. The District's assessment is calculated on the limited primary NAV, a derivative of the Limited Property Value (LPV) established by MCAO. Although increases to LPV cannot exceed 5% per year, NAV may increase more or less than this amount based on parcel additions, reclassifications, or MCAO adjustments. For the 2019 tax year, total limited primary NAV of property within the District increased 6% over the 2018 tax year.

Sewer User Fees are the primary source for funding the District's day-to-day operations. Sewer User Fees must keep pace with rising costs of operations over time. This budget does not include a user fee increase for the 2019-2020 fiscal year. However, future increases intended to keep pace with inflation are tentatively planned for budget years 2020-2021 and 2022-2023 as presented on page 8.

The District charges Connection Fees to new users upon connection to the existing sewer infrastructure. A small portion of these fees is designated to cover the administrative costs of adding a user. The remainder of Collections Fees is designated, by determination of the Board of Directors, as funds set aside in the District's Capital Fund and intended for use in funding the development of additional infrastructure and systems needed to accommodate growth or increasing regulatory requirements.

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 must also take into account the impact of the District's Sodium Remediation Program. This program assists local golf courses, the primary reclaimed water users, in defraying costs associated with mitigating the effects that sodium rich reclaimed water has on their grass.

Interest Income, Availability Fees, and Other Income also contribute to the District's annual operating revenues.

REVENUES

Taxes & Fees Overview All Funds

Presentations & Forecasts

This Adopted Budget certifies that the District will require a tax levy generating \$4,960,290 to "maintain, operate, extend and repair the sewerage system...and treatment plants" during the 2019-2020 fiscal year. The tax rate is determined by dividing the requested tax levy of \$4,960,290 by 1% of the Net Assessed Value (NAV) provided by the MCAO. The NAV for the 2019 tax year is \$505,468,738. This amount is subject to change prior to the Assessor's completion of the 2019 tax levy. The District's requested levy results in a tax rate of 0.9813 per \$100 of assessed value for the 2019 tax year. This is consistent with the rate assessed previously in the 2018 tax year.

Connection Fees are somewhat challenging to predict from year-to-year, but can be estimated based on current economic conditions and knowledge of current development within the District. This revenue source has been consistently budgeted conservatively in recent years. Increased construction activities in the District and multiple requests for zoning to accommodate higher volume occupancies that previously projected have led the District to increase its forecast of Connections Fees in this and potentially subsequent budget years. As a result, a nearly 55% increase in Connection Fees budgeted year-to-year is included in this budget.

Reclaimed Water sales are estimated based on three-year averages with consideration of the uptick in total acre feet delivered the past few years. Fluctuations in weather can cause actual revenues to vary considerably from budget amounts. For this budget Reclaimed Water income is estimated conservatively at a midpoint between the three year average and the unusually high projected total for fiscal year 2018-2019. Utilization of Reclaimed Water by end users is currently under Board review and the results of that discussion may impact Reclaimed Water revenues in future budgets.

The illustration below displays the District's three major sources of operating revenue over five years. The size of each section shows the relative contribution of each revenue source to operating expenditures each year. Additional illustrations for historical revenue data are presented in the remainder of this section.

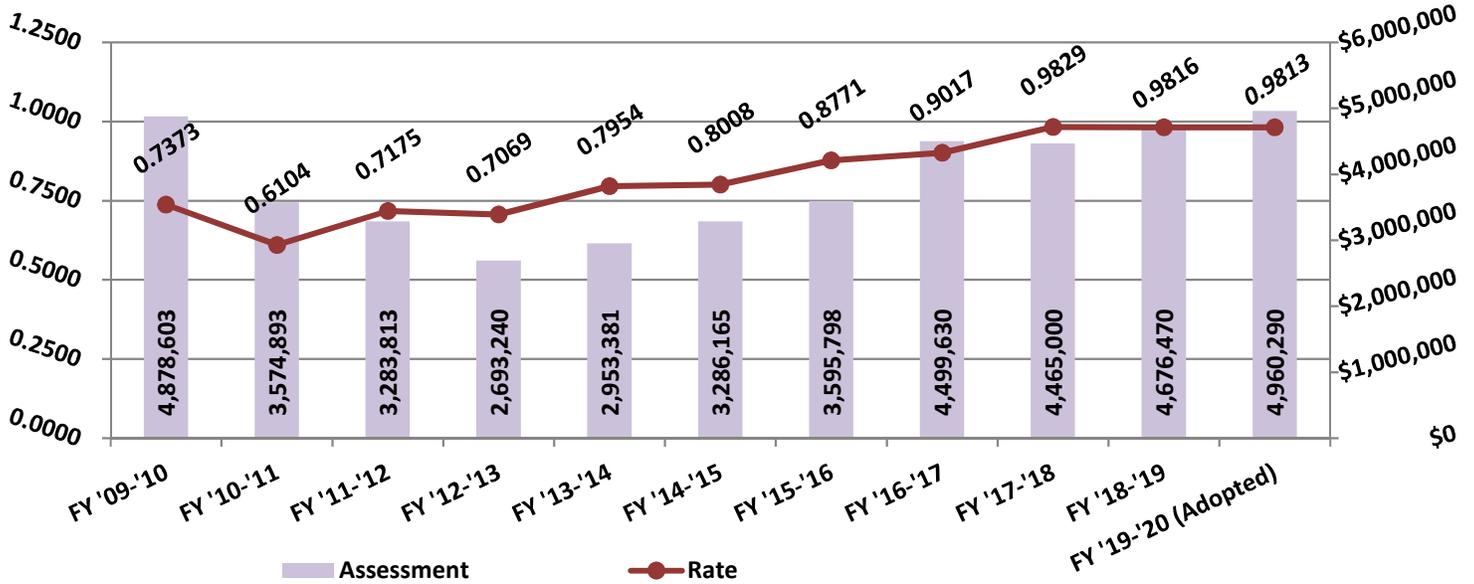
Operating Expenditures by Revenue Source



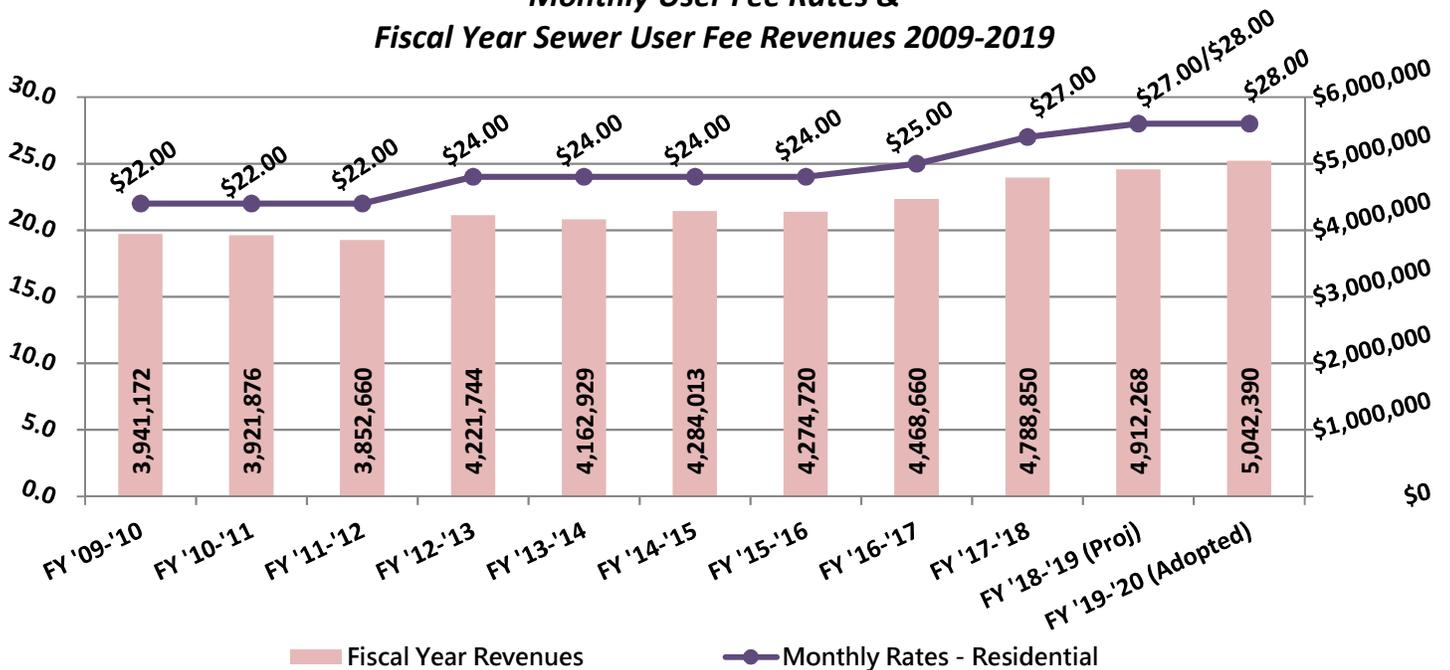
REVENUES

Historical Property Taxes and User Fees All Funds

Property Tax Rates (per \$100 of NAV) & Property Tax Assessments 2009-2019



Monthly User Fee Rates & Fiscal Year Sewer User Fee Revenues 2009-2019



REVENUES

Tax & Fees Summary

		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020 Adopted	% Change	Sch.	
Sewer User Fees	Quarterly Fees:								
	Residential	\$72.00	\$75.00	\$81.00	\$81/\$84	\$84.00	0.0%	2A	
	Hotel/Motel per unit	\$31.50	\$33.00	\$33.75	\$33.75	\$33.75	0.0%	2B(1)	
	Assisted Living per occupant	\$31.50	\$33.00	\$33.75	\$33.75	\$33.75	0.0%	2B(2)	
	Commercial Minimum	\$96.00	\$99.00	\$105.00	\$105.00	\$105.00	0.0%		
	Commercial (by water usage)	varies	varies	varies	varies	varies		2D	
	Schools	\$270	\$270	\$270	\$270	\$270	0.0%	2C	
Connection Fees	One-Time Fees:								
	Hook-up Fee	\$400	\$400	\$400	\$400	\$400	0.0%	3	
	Lateral Fee	\$3,000	\$3,000	\$4,500	\$4,500	\$4,500	0.0%	4	
	Residential Capacity Fee (Single Family)	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	0.0%	5A	
	Residential Capacity Fee (Multi-Family, per unit)	\$10,000	\$5,200	\$5,200	\$5,200	\$5,200	0.0%	5B	
	Hotel/Motel Capacity Fee (per unit)	\$4,145	varies	\$4,145	\$4,145	\$4,145	0.0%	5C(1)	
	Assisted Living Capacity Fee (per occupant)	N/A	\$3,500	\$3,500	\$3,500	\$3,500	0.0%	5C(2)	
	Commercial Capacity Fee (per unit)	varies	varies	varies	varies	varies		5D	
	Shea Corridor Surcharge (Non-residential varies)	\$1,260	\$1,260	\$1,260	\$1,260	\$1,260	0.0%	6A(1)	
	Shea Corridor Surcharge Hotel/Motel (per unit)	\$450	\$450	\$450	\$450	\$450	0.0%	6A(2)	
	Other Charges	Annual Fees:							
		Availability Fee	\$84	\$84	\$84	\$84	\$84	0.0%	7
		Property Taxes (per \$100 in AV)	\$0.877	\$0.902	\$0.984	\$0.982	\$0.981	0.0%	
Fees Per Occurrence:									
Project Review/Inspection Fee (Per Lineal Foot)		\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	0.0%	8	
plus (per pump station)		\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	0.0%	8	
RV Dump Fee - Nonresident		--	--	\$5.00	\$5.00	\$5.00	0.0%	13A	
RV Dump Fee - Commercial		--	--	\$25.00	\$25.00	\$25.00	0.0%	13B	
Reclaimed Water (per acre foot)		\$380	\$380	\$380	\$380	\$380	0.0%	9	
Encroach/Abandonments		\$25/\$75	\$25/\$75	\$25/\$75	\$25/\$75	\$25/\$75		10	
Sewer User Establishment Fee		\$30	\$30	\$30	\$30	\$30	0.0%	2E(1)	
Public Records (Copies/Postage)		varies	varies	varies	varies	varies		12	
Penalties and Interest		Interest on late payments	10%	10%	10%	10%	10%	0.0%	2E(6)b
	Sewer User Fee Late charge	\$25	\$25	\$25	\$25	\$25	0.0%	2E(6)a	
	Non-sufficient funds fee	\$30	\$30	\$30	\$30	\$30	0.0%	11	
	Failure to obtain Service Agr.	\$750	\$750	\$750	\$750	\$750	0.0%	6B(1)	
	Lien Fee	\$150	\$150	\$150	\$150	\$150	0.0%	2E(6)c	
	User Service Discontinue Fee	actual costs	actual costs	actual costs	actual costs	actual costs		2(7)a	
	User Fee Deposit	\$144	\$150	\$162	\$162	\$162	0.0%	2E(6)d	
Consumer Price Index Change**		0.80%	0.70%	2.10%	2.10%	1.90%			

**From data published by the U.S. Department of Labor, Bureau of Labor Statistics (<http://www.bls.gov>, "12-month % change, CPI, U.S. all items)

DISTRICT OPERATIONS

Operating Expenditures General Fund

Perspective

The General Fund is the District's operational fund and accounts for revenues and expenditures used for the District's day-to-day activities. Disbursements from this fund include costs to operate and maintain the District's WWTP, AWTF, collection system and reclaimed water distribution system. Expenditures shared among departments such as payroll, billing and administrative costs, are disbursed from this fund as well.

Sizeable expenditures needed to extend, repair or replace the existing sewerage system, District facilities and equipment are also disbursed from this fund.

Operating Expenditures 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.

Presentation & Forecasts

The operations component of the General Fund budget, including a detailed discussion of Operating Expenditures organized by category (WWTP, RW, CS, and Billing) are presented in this section. The remainder of General Fund activity, as reported on page 3, is associated with System & Facility Improvements and presented in Section IV.

WWTP: Wastewater Treatment Plant operations make up 35.1% of total Operating Expenditures. The WWTP operates around-the-clock, treating an average of approximately two million gallons of wastewater per day.

RW: Reclaimed Water accounts for 26.9% of total Operating Expenditures. A portion of both Collection System and Plant personnel costs are allocated for RW functions regularly carried out by these departments.

CS: The Collection System accounts for 32.2% 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. .

Billing: Billing accounts for 5.8% of total Operating Expenditures. Billing expenditures incorporate all costs associated with the billing and collection of Sewer User Fees, Reclaimed Water sales and Availability Fees.

Operating expenditures are presented in detail beginning on page 16. Wages and other costs associated with District personnel are presented in aggregate on page 21.

DISTRICT OPERATIONS

Operating Expenditures General Fund

Important Considerations

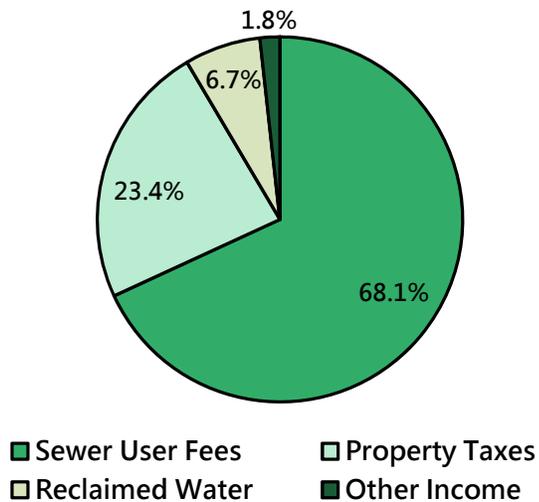
-  "Shared Expenditures" consist of administrative and overhead expenditures not directly attributable to individual operating categories. District staff has considered factors such as category size, number of employees, and demand on administrative resources to determine each category's proportionate share of these expenditures. A reassignment of some District personnel and operating expenditures to a dedicated maintenance group tasked with conducting, documenting and managing the maintenance of District vehicles, equipment and facilities is adopted for the 2019-2020 fiscal year. Expenses associated with these functions will generally be included in Shared Expenditures except for specific items easily distinguishable from one category to another. A separate line item to identify the dollar value of Shared Expenditures assigned to each category is included in this budget for informational purposes.
-  In addition to Shared Expenditures, many of the District's general operating expenditures are allocated to the four defined departments based on that particular operation's utilization of District resources. For example, WWTP personnel costs are allocated between the WWTP and RW categories according to a set allocation schedule developed by management. Each year, management reviews recent years' activities in conjunction with preparation of the current year budget and reassess these allocation percentages to better reflect each category's contribution to total operating expenditures. This ongoing assessment may result in higher than standard variances in year-to-year budget comparisons of certain line items.
-  The total cost of potentially emergent or unanticipated expenditures is extremely difficult to predict in any given budget year. Such expenditures arise from unanticipated equipment failure or expenditures necessitated by the age and overall wear and tear of District equipment and facilities. This, along with the depletion of existing cash reserves used to complete the \$7.2 million Solids Handling Project has prompted District staff to request a segregation of General Fund monies to reserves (FERR Fund) beginning in FY '18-'19. These reserves are used to fund current and future expenditures for the repair, replacement and/or refurbishment of system components, facilities and equipment. Implementation of the FERR funds has allowed staff to do away with more subjective budgeting methods used previously such as an allotment for "Unspecified Outlay" and a system of educated guesses about what systems and facilities might likely require replacement or significant repairs in the upcoming fiscal year. Instead, the FERR Fund provides a more targeted plan for addressing these needs and consequently contributes to the overall stability and fiscally responsible management of the District's Operating Expenditures.
-  A 1.9% increase to the U.S. Consumer Price Index (all items) over the twelve months ending December 2018 was considered in preparation of this 2019-2020 fiscal year budget.

DISTRICT OPERATIONS

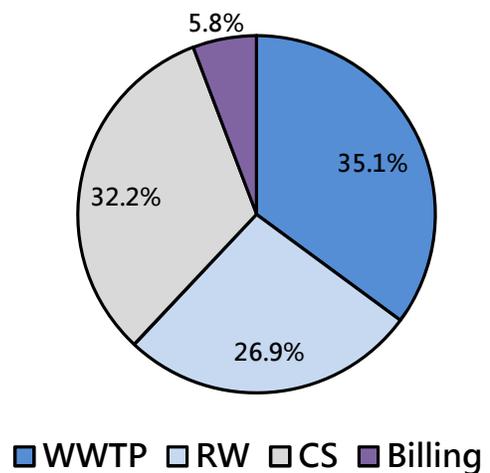
Revenues & Expenditures General Fund - Operations

	2018-2019 Adopted Budget	2019-2020 Adopted Budget	% Change	Increase (Decrease) from 2018-2019 Adopted Budget
Revenues				
Property Taxes	1,510,740	1,731,370	14.6%	220,630
Sewer User Fees	4,967,790	5,042,390	1.5%	74,600
Connection Fees	20,000	30,000	50.0%	10,000
Reclaimed Water	569,800	499,000	-12.4%	(70,800)
Other Income	95,610	100,260	4.9%	4,650
Total Revenues	\$ 7,163,940	\$ 7,403,020	3.3%	239,080
Operating Expenditures				
WWTP	2,682,340	2,600,780	-3.0%	(81,560)
RW	1,994,490	1,989,460	-0.3%	(5,030)
CS	2,092,150	2,385,890	14.0%	293,740
Billing	394,960	426,890	8.1%	31,930
Total Expenditures	\$ 7,163,940	\$ 7,403,020	3.3%	239,080
Excess of revenues over expenditures	\$ -	\$ -	-	-

Operating Revenues by Source



Operating Expenditures by Category



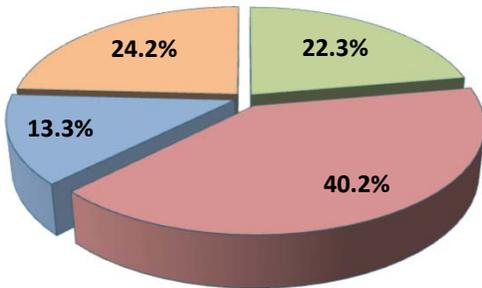
DISTRICT OPERATIONS

Operating Expenditures: WWTP

	2018-2019 Adopted Budget	2019-2020 Adopted Budget	% Change	Increase (Decrease) from 2018-2019 Adopted Budget
WWTP				
Operations, Maint. & Supplies	632,880	578,900	-8.5%	(53,980)
Personnel	1,272,170	1,046,610	-17.7%	(225,560)
Utilities	342,500	347,000	1.3%	4,500
Shared	434,790	628,270	44.5%	193,480
Total WWTP	\$ 2,682,340	\$ 2,600,780	-3.0%	(81,560)

WWTP Expenditures by Category

■ Ops, Maint. & Supplies
 ■ Personnel
 ■ Utilities
 ■ Shared



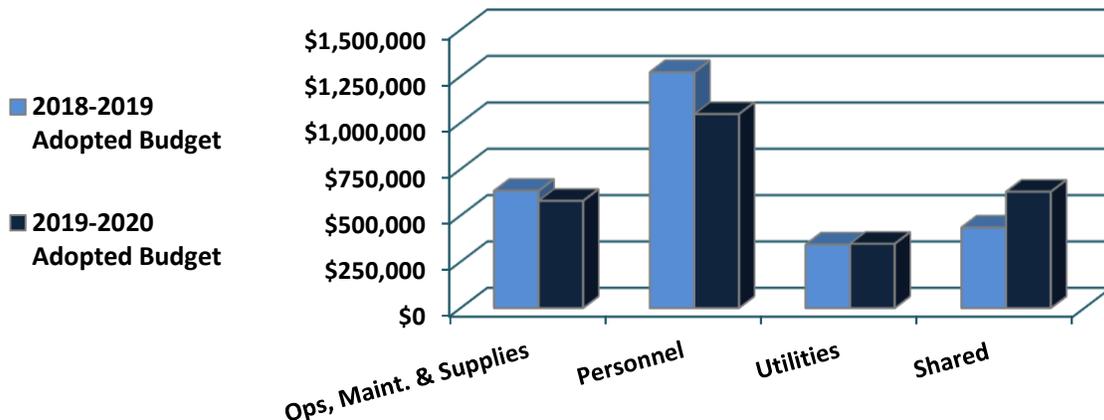
Notables

* The decrease in category budget is attributed to the reassignment of some personnel to a shared maintenance group

* Electrical costs are anticipated to decrease due to more efficient equipment installed as part of the Solids Handling Project.

* Costs of some equipment maintenance and repairs is now

WWTP Expenditures: Year-to-Year Comparison



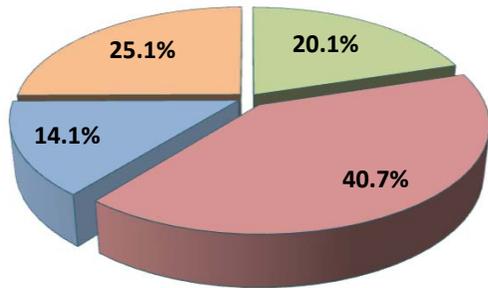
DISTRICT OPERATIONS

Operating Expenditures: RW

	2018-2019 Adopted Budget	2019-2020 Adopted Budget	% Change	Increase (Decrease) from 2018-2019 Adopted Budget
RW				
Operations, Maint. & Supplies	354,110	400,450	13.1%	46,340
Personnel	1,042,960	809,200	-22.4%	(233,760)
Utilities	278,000	280,000	0.7%	2,000
Shared	319,420	499,810	56.5%	180,390
Total RW	\$ 1,994,490	\$ 1,989,460	-0.3%	(5,030)

RW Expenditures by Category

■ Ops, Maint. & Supplies
 ■ Personnel
 ■ Utilities
 ■ Shared

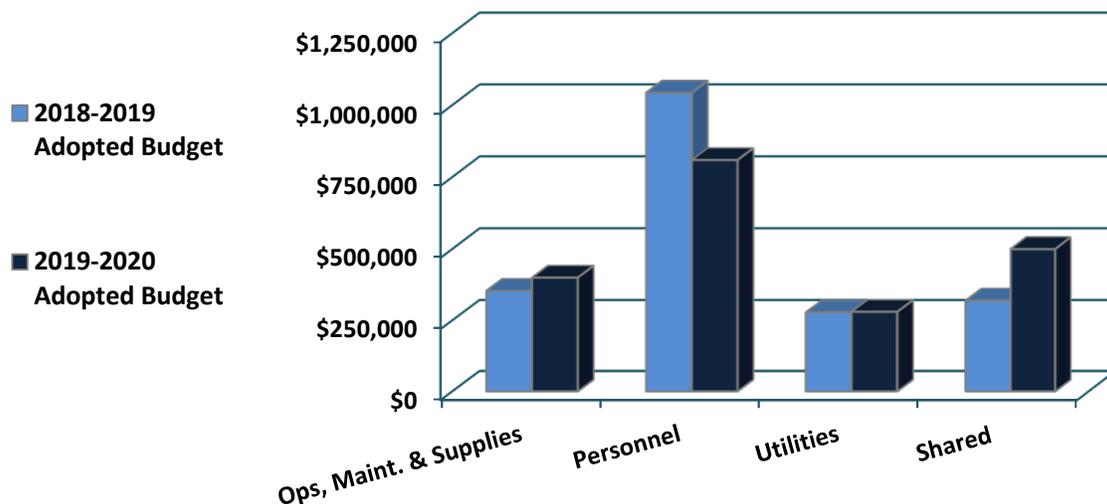


Notables

* A thorough review of necessary expenses has resulted in total expenditures for this category remaining fairly consistent, only requiring a nominal 0.2% increase.

*The decrease in personnel budget is attributed to the reassignment of some personnel to a shared maintenance group

RW Expenditures: Year-to-Year Comparison



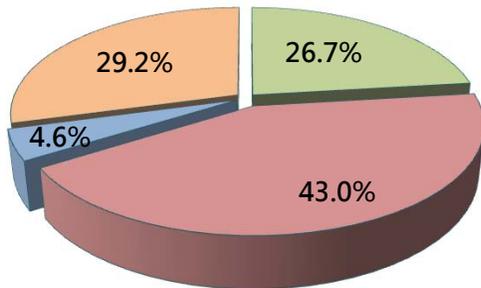
DISTRICT OPERATIONS

Operating Expenditures: CS

	2018-2019 Adopted Budget	2019-2020 Adopted Budget	% Change	Increase (Decrease) from 2018-2019 Adopted Budget
CS				
Operations, Maint. & Supplies	560,200	551,400	-1.6%	(8,800)
Personnel	1,051,950	1,026,580	-2.4%	(25,370)
Utilities	100,000	110,500	10.5%	10,500
Shared	380,000	697,410	83.5%	317,410
Total CS	\$ 2,092,150	\$ 2,385,890	14.0%	293,740

CS Expenditures by Category

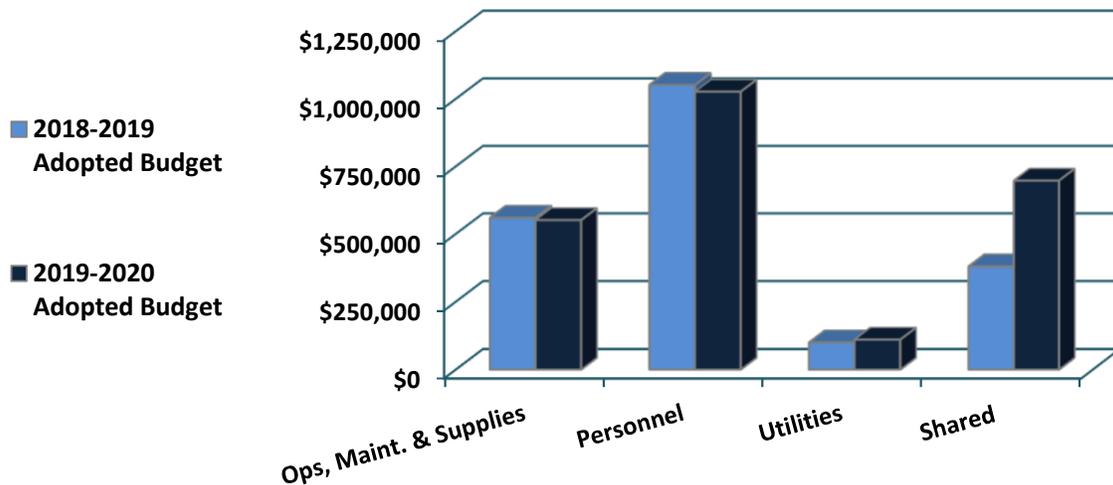
■ Ops, Maint. & Supplies
 ■ Personnel
 ■ Utilities
 ■ Shared



Notables

- * The increase in utilities cost is mainly attributed to past and planned water rate increases.
- * The increase in CS portion of shared expenses aligns with the previously mentioned reassignment of personnel and the proportionately larger amount of fleet vehicle maintenance attributable to the activities of the CS category.

CS Expenditures: Year-to-Year Comparison



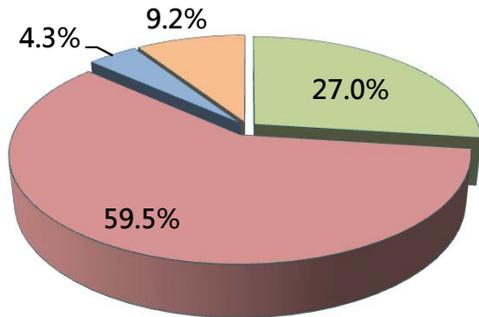
DISTRICT OPERATIONS

Operating Expenditures: Billing

	2018-2019 Adopted Budget	2019-2020 Adopted Budget	% Change	Increase (Decrease) from 2017-2018 Adopted Budget
Billing				
Operations, Maint. & Supplies	117,180	115,400	-1.5%	(1,780)
Personnel	234,820	254,080	8.2%	19,260
Utilities	18,000	18,000	0.0%	-
Shared	24,960	39,410	57.9%	14,450
Total Billing	\$ 394,960	\$ 426,890	8.1%	31,930

Billing Expenditures by Category

■ Ops, Maint. & Supplies
 ■ Personnel
 ■ Utilities
 ■ Shared

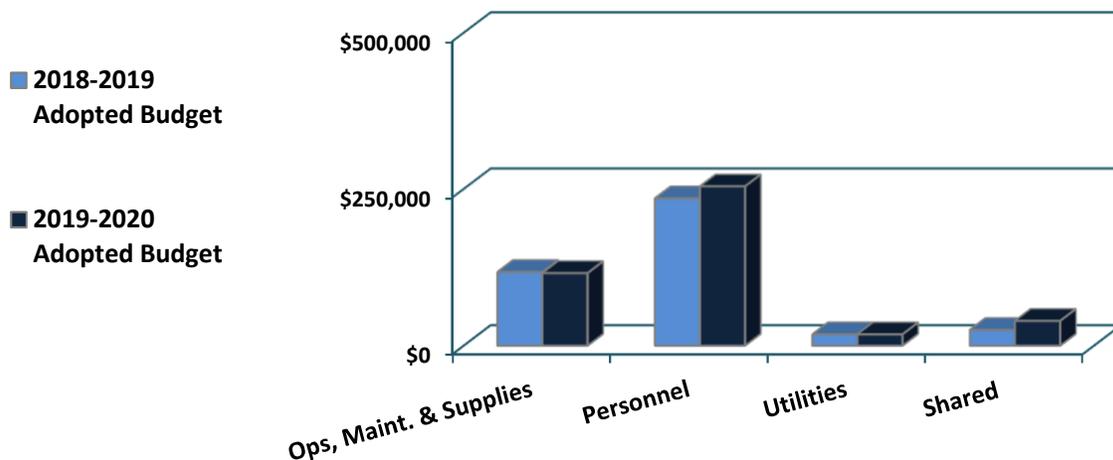


Notables

* Staff review of some administrative staff contributions and oversight to billing is reflected in the increase in Shared expenses. Consequently, this line item increase is attributable more to a reallocation of expenses than to an increase actual cash outflow.

*Billing O&M are down as a result of analysis indicating actual trends have been lower than budget in recent history.

Billing Expenditures: Year-to-Year Comparison

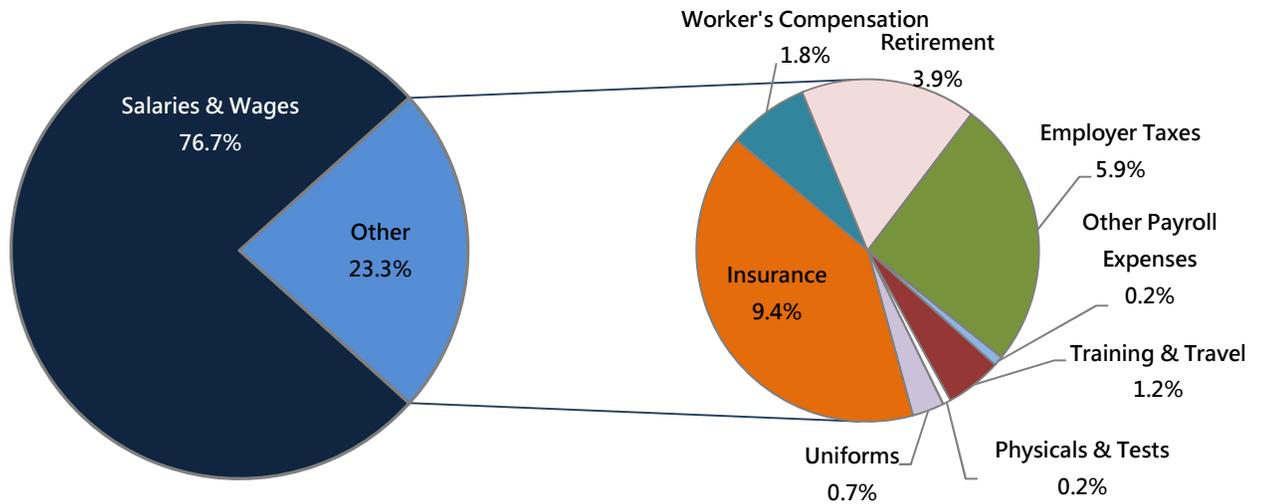


DISTRICT OPERATIONS

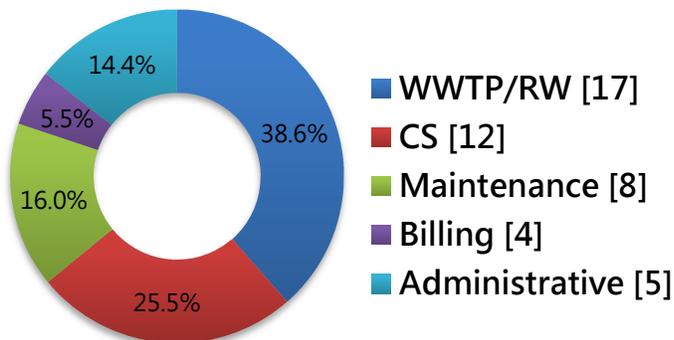
Operating Expenditures: Personnel

	2018-2019 Adopted Budget	2019-2020 Adopted Budget	% Change	Increase (Decrease) from 2018-2019 Adopted Budget
Personnel				
Salaries & Wages	3,159,270	3,360,870	6.4%	201,600
Training & Travel	44,750	54,450	21.7%	9,700
Physicals & Tests	7,800	7,650	-1.9%	(150)
Uniforms	31,400	30,800	-1.9%	(600)
Insurance	401,500	413,000	2.9%	11,500
Worker's Comp	85,450	77,600	-9.2%	(7,850)
Retirement	156,640	169,610	8.3%	12,970
Employer Taxes	239,660	259,510	8.3%	19,850
Other Payroll Exp	8,200	9,300	13.4%	1,100
Total Personnel	\$ 4,134,670	\$ 4,382,790	6.0%	248,120

Personnel Expenditures by Type



Wages by Department [# of employees]



SYSTEM & FACILITY IMPROVEMENTS

SFI Discussion General & Capital Funds

Perspective

The District's Five-Year System & Facility Improvements (SFI) Plan is revised annually as part of the budget process. Expenditures that provide the District with long-term benefit such as major equipment purchases, vehicles, construction projects, and other fixed assets are designated as SFI. Most improvements to buildings, sewer infrastructure, and other core components of the sewer system designed to last more than one year are considered SFI. Construction projects, for new facilities or rehabilitation of existing facilities typically generate expenditures over many months and often over multiple fiscal years. These projects are generally expensive and require the most planning.

SFI expenditures are allocated to the General and Capital Funds (depending on classification) allowing for expenditures to be funded by appropriate revenue sources in accordance with applicable Board designation. Property Taxes, a General Fund revenue source, are the primary resource for funding SFI required to repair, replace, or extend unit processes for ongoing operations. Revenue from Connection Fees, which are primarily a Capital Fund revenue source, are utilized to finance growth related SFI. Each District project is evaluated to determine what, if any, portion of the project is designed strictly to facilitate District growth. The "Growth" component of a project is intended to expand or improve District unit processes in conjunction with the District's current master plan, to keep the District in compliance with increasing government regulations and to allow for improvements designed to keep the District in step with advancements in the areas of safety and technology.

District staff carefully considers the long-term implications and the probability of significant variables when constructing an SFI plan. Multimillion dollar projects may require large cash reserves accumulated over many fiscal years. In addition, certain revenue sources, Connection Fees especially, may fluctuate significantly from one year to the next. Accordingly the Capital Fund budget is not "balanced" to zero but instead is designed to accumulate or expend cash year-to-year depending on actual revenues versus planned spending on "growth" projects. Implementation of the FERR Fund also allows General Fund monies to accumulate in reserve, for the specific purpose of funding both planned and unplanned expenditures for the current and future repair or replacement of facilities and equipment.

Staff considers multiple factors, including but not limited to need, cost, timing, and scheduling conflicts in order to develop this plan. The age of District facilities and infrastructures remains a high priority for the District with regard to identifying the SFI and FERR spending included herein. Staff continually strives to plan and implement projects which are flexible, incorporating efficient and cost effective solutions where feasible to update aging unit

Presentations

Current year revenues and expenditures associated with SFI are presented on the next page. A five-year spending plan has been developed to address necessary expenditures for facilities rehabilitations, upgrades, or replacements. Just over \$17.6 million in necessary projects have been identified and scheduled over the next five years, as shown on page 26.

SYSTEM & FACILITY IMPROVEMENTS

SFI Discussion

General & Capital Funds

SFI Plan Highlights

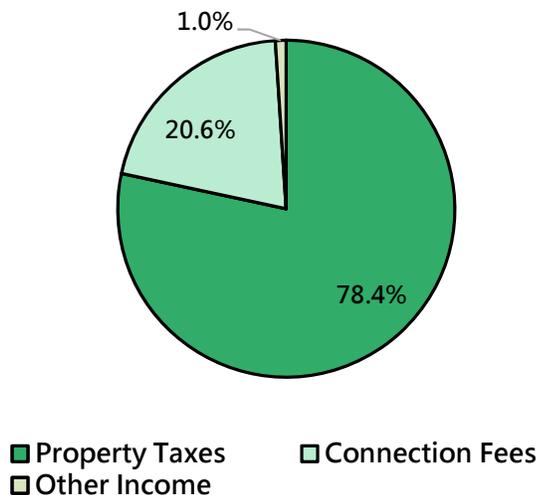
-  The ASR Well Vault Replacement Project began the design and pre-construction phase in FY '18-'19 with necessary and ongoing planning efforts and Town coordination. This current budget year includes funds to complete the construction of above ground facilities at ASR Well Nos. 2 and 4, including public restrooms to be donated to the Town. Construction of this phase of the project is planned to start in May 2019 with the largest portion of the construction expenditures rolling into the 2019-2020 Adopted Budget. Vault replacement of ASR Well No. 1 has been postponed several years, awaiting the results from a flood study to be conducted by the Town of Fountain Hills.
-  A focused effort to identify and rehabilitate severely deteriorated sewer lines will continue with Phase 3 of the Sewer Slip Lining Project in the 2019-2020 budget year.
-  The District's new, systemic approach to evaluating, prioritizing, and replacing the District's aging equipment and infrastructure began in FY 2017-2018 and led to the establishment of the FERR Fund. As part of an integrated asset management plan this fund is established to designate funds for the ongoing maintenance, repair and replacement of the District's sixty million dollars in assets. Reserve funds are needed to accommodate this necessary spending without dramatic temporary or permanent increases to District revenue sources.
-  The next treatment plant process to warrant improvements is the heart of the biological treatment system: the aeration basins. Constructed in the 1990s and re-equipped in 2000, these vital process units have not been upgraded or improved in 19 years. The Secondary Treatment System Improvements project will span two fiscal years and replace or upgrade the internal mechanical and instrumentation components. By taking advantage of advancements in equipment and technology, the upgrades will lower electrical costs, improve process control, and improve treatment performance.

SYSTEM & FACILITY IMPROVEMENTS

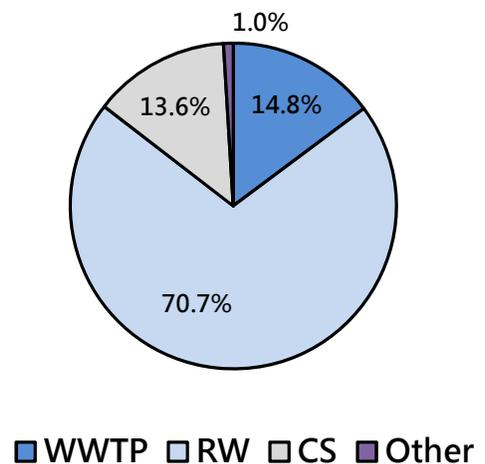
Revenues & Expenditures General & Capital Funds - SFI

	General Fund			2019-2020 Adopted Budget	2018-2019 Adopted Budget	% Change
	Operations	FERR	Capital Fund	SFI	SFI	
Revenues						
Property Taxes	3,228,920			3,228,920	3,165,730	2.0%
Connection Fees			849,000	849,000	547,700	55.0%
Other Income			42,750	42,750	22,500	90.0%
Interfund Transfer	(1,025,920)	1,000,000	-	(25,920)	(78,810)	
Total Revenues	\$ 2,203,000	\$ 1,000,000	\$ 891,750	\$ 4,094,750	\$ 3,657,120	12.0%
Expenditures						
System & Facility Improvements						
WWTP	500,000	110,000		610,000	937,000	-34.9%
RW	1,393,000	117,000	1,407,000	2,917,000	1,015,000	187.4%
CS	310,000	250,000		560,000	338,000	
Other		40,000		40,000	400,000	-90.0%
Total Expenditures	\$ 2,203,000	\$ 517,000	\$ 1,407,000	\$ 4,127,000	\$ 2,690,000	53.4%
Excess of revenues over expenditures	\$ -	\$ 483,000	\$ (515,250)	\$ (32,250)	\$ 967,120	

SFI Funding by Revenue Source



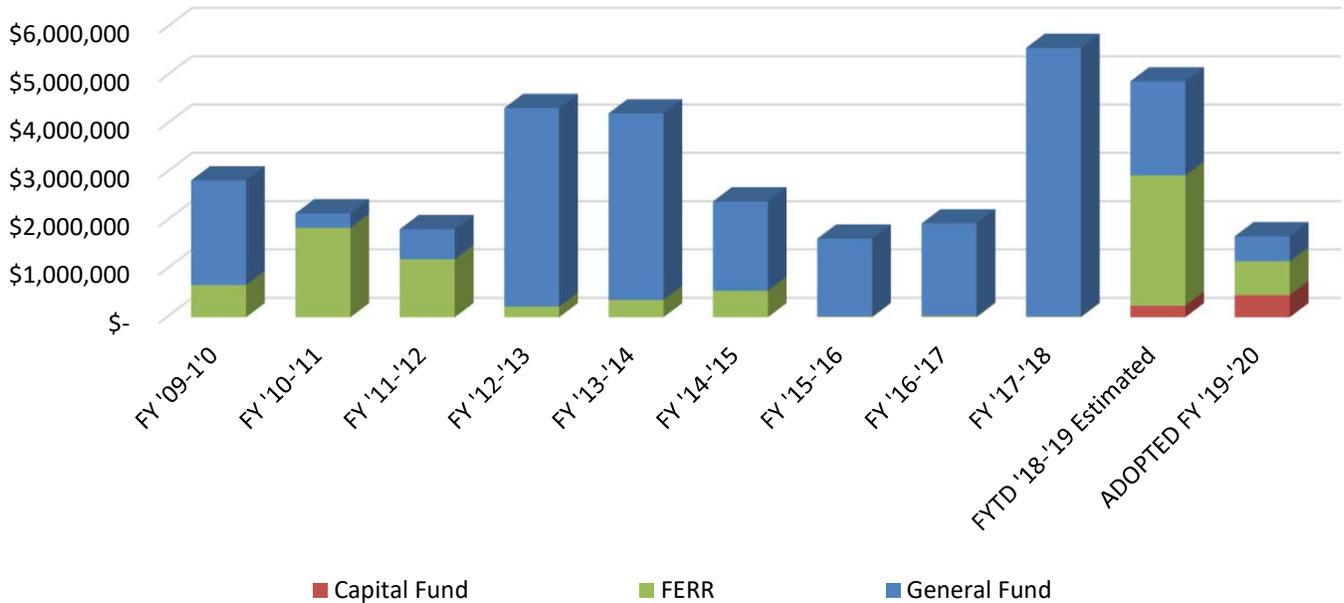
SFI Expenditures by Category



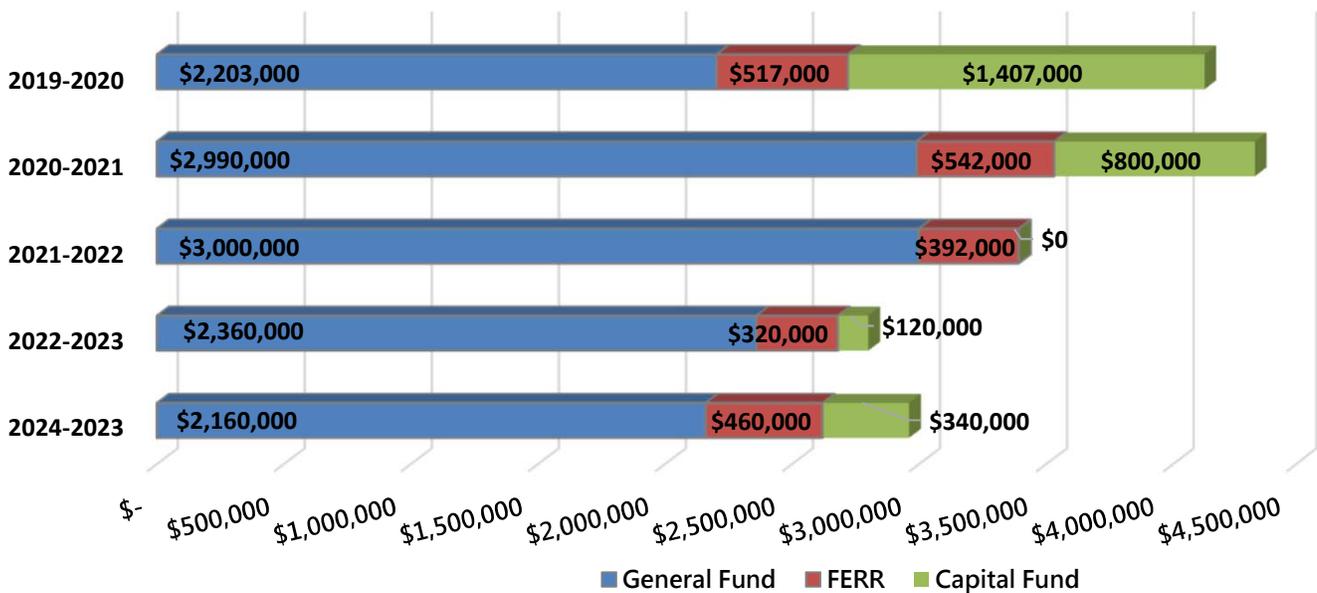
SYSTEM & FACILITY IMPROVEMENTS

Historical & Projected SFI General & Capital Funds

Historical SFI Spending by Fund
(Actual Totals - Past 10 Years)



Projected SFI Spending (General Fund, FERR, Capital Fund)
by Fiscal Year



SYSTEM & FACILITY IMPROVEMENTS

Five-Year Plan by Category All Funds - SFI

PROJECT DESCRIPTION	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
WWTP					
Clarifier #2 Rehab	\$ 120,000				
Clarifier #2 Ras Pit Valve repair	\$ 30,000				
Secondary Treatment System Improvements, Part 1	\$ 350,000	\$ 350,000			
Secondary Treatment System Improvements, Part 2		\$ 500,000			
Modify design for Grit Removal Upgrades		\$ 75,000			
Installation of CIP Tank Heater and Controls		\$ 30,000			
Bulk SBS Storage Tank and Modifications		\$ 50,000			
Clarifier #3 Rehab		\$ 100,000			
Install Effluent Pump #4		\$ 400,000			
Grit System Refurbishment and Upgrade			\$ 1,000,000		
Digester Aeration System Replacement-Design			\$ 300,000		
Remove Digester Berm, Provide New Access Road			\$ 50,000		
Digester Aeration System Replacement - Construction				\$ 1,300,000	
Plant Control Building Mods - Design				\$ 300,000	
Plant Control Building Mods - Construction					\$ 850,000
FERR - Planned	\$ 110,000	\$ 102,000	\$ 72,000	\$ 60,000	\$ 150,000
RW					
Upgrade AWTF Air Compressors	\$ 400,000				
UV System Upgrade Project - Design	\$ 150,000				
ASR Well Control Buildings	\$ 2,100,000				
ASR Well Chemical Rehab (1 well)	\$ 150,000				
UV System - Improvement Project		\$ 1,500,000			
ASR Well 1 Vault Replacement Design		\$ 300,000			
ASR Well Vault 1 Replacement			\$ 1,000,000		
AWTF - Replace Membranes and Other Improvements					\$ 1,000,000
FERR - Planned	\$ 117,000	\$ 197,000	\$ 85,000	\$ 40,000	\$ 100,000
CS					
Pump Station Control Improvements	\$ 45,000				
Foundation Stabilization of PS 18	\$ 25,000				
Slip Lining - Phase 3	\$ 240,000				
Slip Lining - Phase 4		\$ 250,000			
Upgrade PS 10 - Design		\$ 65,000			
PS 17 - Pave Driveway		\$ 40,000			
Pave PS 1 and 3		\$ 50,000			
Upgrade PS 10 - Construction			\$ 650,000		
Phase Out PS 12 - Design & Construction				\$ 880,000	
Refurbish Pump Station					\$ 650,000
FERR - Planned	\$ 250,000	\$ 88,000	\$ 125,000	\$ 80,000	\$ 100,000
OTHER					
Paint Admin Bldg		\$ 80,000			
FERR - Planned	\$ 40,000	\$ 155,000	\$ 110,000	\$ 140,000	\$ 110,000
Total System & Facilities Improvements	\$ 4,127,000	\$ 4,332,000	\$ 3,392,000	\$ 2,800,000	\$ 2,960,000
Note: Capital Fund (Growth) Portion of above	\$ 1,407,000	\$ 800,000		\$ 120,000	\$ 340,000

SYSTEM & FACILITY IMPROVEMENTS

Fiscal Year 2019-2020

All Funds - FERR DETAIL

PROJECT DESCRIPTION	2019-2020
WWTP	
Restore One Aeration/Digester Blower	\$ 30,000
Restore/Replace One WWTP EFF Pump	\$ 25,000
RW	
Purchase Spare Baski Valve	\$ 55,000
Restore/Replace AWT Valves	\$ 60,000
Restore/Replace Membrane Feed Pump	\$ 20,000
Restore/Replace Membrane Product	\$ 15,000
Restore/Replace One FireRock Pump	\$ 22,000
CS	
Replace Water Truck	\$ 80,000
Replace 1 CSO Service Truck	\$ 40,000
Rehab PS 14 Wetwell	\$ 20,000
CSO Pump Repairs and Replacements	\$ 80,000
Replace Xfer Switch/TVSS at 5 Pump	\$ 30,000
OTHER	
Replace Carpet in Admin Buiding	\$ 40,000
Total FERR	\$ 517,000