

The Gage Canal Company Board of Directors

Staff Report

**DRAFT**

September 13, 2022

Members of the Board of Directors:

Attached is the 2022-2023 fiscal year proposed budget for The Gage Canal Company. The budget includes revenues and expenditures for company operations. This budget increases the share price to \$220 with the use of reserves totaling \$555,281. The company currently has a restricted reserve of \$1 million dollars and additional unrestricted reserves of approximately \$1 million dollars. Should the Board of Directors decide against using the reserves the share price would increase to \$270. The budget reflects wage increases for employees based on a comprehensive compensation structure, performance, promotion milestones, while adding a full-time person in lieu of a part-time position. The budget does not address the consultant engineering costs associated with modifying the piping in order to achieve meter calibration at Olivewood 1, 2 and 3 wells which will require additional use of reserves during the 2022/2023 fiscal year.

GENERAL ISSUES

Before discussing specific items, the following is a brief overview of the issues that apply to the budget:

Power & Gas Fuel: \$375,000 expense increase due to rising energy costs (natural gas, electricity). Electric bills for Olivewood Wells 1, 2 and 3 (previously paid by the City of Riverside as part of the Exchange Agreement/City of Riverside received credit on Water Above Entitlement).

Insurance: The 2022/2023 budget reflects an *estimated* increase of 25% for Directors and Officers insurance. Medical insurance monthly premium rate increased 7.65% for the next fiscal year. The policies for auto, commercial, umbrella and worker's compensation insurance are expected to remain the same as fiscal year 2021/2022.

Consulting: The budget includes the yearly engineering report completed by WEST Consultants to California Division of Safety of Dams, monthly human resource consulting services from HROD Consultants, and monthly information technology support from InMotion.

Legal Expenses: The 2022/2023 legal budget is reduced \$100,000 from the 2021/2022 fiscal year budget, with potential legal matters requiring a minimum \$100,000 for this expense category.

Safety Compliance: Canal Operations and Headworks employees will undergo first aid/cpr training and the company will continue to purchase safety gear due to the covid-19 pandemic. Safety First will conduct a yearly facility inspection of the main office, Headworks and Canal Operations to help Gage Canal stay current with new regulations and necessary training.

Regulatory Fees: On April 27, 2022 the San Bernardino Valley Water Conservation District Board of Directors unanimously approved Resolution No. 599, increasing the unitary groundwater charge from \$14.54 to \$15.27 per acre-foot (af) for all groundwater production from July 1, 2022 to June 30, 2023.

New Equipment: Route truck, haul trailer, line locator and portable restroom for Canal Operations; Acoustic paneling for the conference room at the main office; Metal canopy to replace the dilapidated and decaying barn at Headworks.

Weed & Algae Control: This expense includes the purchase of the Magnacide H chemical injected into the Canal and the herbicide application by Washburn & Sons to control seeds, weeds and other invasive pests multiple times throughout the year along the Canal.

Repairs and Maintenance: The 2022/2023 budget is set at \$205,000, a reduction of \$184,000 from the 2021/2022 budget. Capital Expenditures, line item number 799 are now separated from the Repairs and Maintenance budget.

#### BUDGET REDUCTIONS

The following expense categories were reduced or eliminated entirely from the budget:

Canal Lining, Well Rehab, Smog, Legal, Insurance, Water Analysis

#### OPERATING AGREEMENT – CAPITAL EXPENDITURE BUDGET

Exhibit “F”, Section 15 - Lines 4 through 17 of the Operating Agreement states the following:

“All capital improvements, additions and replacements necessary to fully exercise the water rights condemned to the use of the City and necessary to the Company’s performance of this agreement shall be paid for by the Company, installed only on former Gage properties condemned to the City and shall be the property of the City. The Company shall submit an annual capital expenditure budget for approval by the City; costs of such improvements necessary to efficient performance of this agreement shall be borne by all shareholders, including the City, and/or contractual obliges as operating expenses in accordance with previous practices and existing agreements; except the City shall assume the shareholders’ allocation of expense for canal covering instigated by the City.”

The annual capital expenditure budget for 2022/2023 is as follows:

1. Asphalt \$71,150
2. Vehicle \$50,000
3. Metal Canopy \$30,000
4. Haul Trailer \$16,000
5. Acoustic Paneling \$13,000
6. Line Locator \$7,000
7. Portable Work Restroom \$3,554

The total annual capital expenditure budget to be submitted to the City of Riverside, excluding the contractor costs associated with the Olivewood wells: \$191,704.

Exhibit "F", Section 16 - Lines 20 through 22 of the Operating Agreement states the following:

"The fixed works, equipment and improvements condemned to the use of the City or constructed as provided in Section 15 above, shall not be removed, abandoned, destroyed or substantially altered with the City's consent."

The following obsolete materials will be sold as scrap with proceeds to be deposited under Income Account 630, Miscellaneous Income: miscellaneous steel from Headworks and Jackson Street yard cleanup.

#### SUMMARY

The preparation of the 2022/2023 fiscal year budget has been a collaborative and cooperative process that involved all of the Board Committees and staff throughout our organization. We recognize the continued challenges with ongoing legal circumstances, deferred maintenance and protecting company assets.

On behalf of The Gage Canal Company, it is my pleasure to present the proposed Fiscal Year 2022-2023 Budget.

Sincerely,

BENJAMIN ALMS

General Manager

***Capital Expenditures 2022/2023***

Canal Operations

1. New route truck	\$ 50,000
2. Haul trailer	\$ 16,000
3. Line Locator	\$ 7,000
4. Portable work restroom	\$ 3,554
	<u>\$ 76,554</u>

*Hold until 2022/23*

1. Asphalt	\$ 52,000
2. New route truck	\$ 50,000

Headworks

1. Asphalt	\$ 72,150
2. Metal Canopy to replace barn	\$ 30,000
	<u>\$ 102,150</u>

Main Office

2. Acoustic Paneling - conference room	\$ 13,000
	<u>\$ 13,000</u>

*Hold until 2022/23*

1. Astroturf
2. Asphalt

**Total: \$ 191,704**

MID and Extra Water Rate Comparisons

**Cost of Water Taken Within Entitlement**

Current shareholder MID cost (based on 10 months): \$4.44

*1 share @\$200.00= 4.5 MIDs a month  
Operating months: 10 months  
Price per MID based on assessment: \$4.44*

**Cost of Water Received Above Entitlement (extra water)**

Current **shareholder** extra MID rate: \$7.50  
Current **city** extra MID rate (taken at Linden): \$4.57 (average)