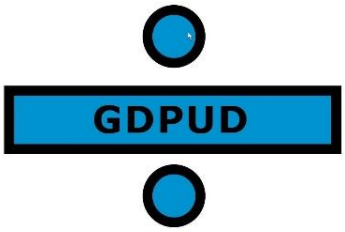


DRAFT 2016-2026 LONG RANGE FINANCIAL FORECAST

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

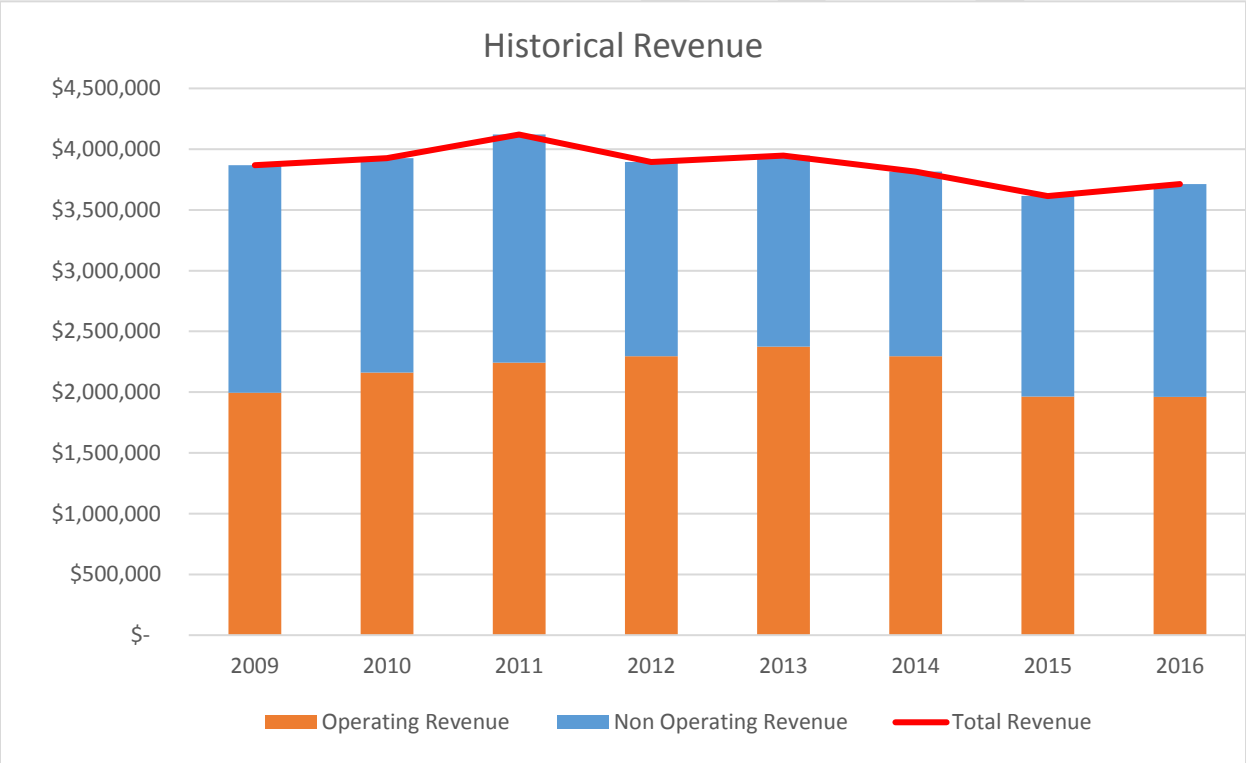
April 7, 2017

I. Historical Perspective

The District and the entire State of California are beginning to emerge from a six-year drought. The State saw its snowpack reduce from 125% of average in 2011 to 15% of average in 2015, and reservoir storage decreased from 105% of average to 66% of average in the same period of time. At a local level, the District's Stumpy Meadows Reservoir volume dropped to 41% of capacity during the drought. This drought led to increased emphasis of water conservation on a statewide level, and the State responded by enacting mandatory Statewide water conservation goals. At one point in time, the State mandated that the District's customers reduce water use by 39% as compared to 2013. As would be expected, this increase in conservation led to a decrease in revenue to the District due to decreased water sales. The District's operating revenues decreased from $2.4M in 2013 to $2.0M in 2016.

A. District Revenues

The District's revenue sources are aggregated into two broad categories; operating and non-operating. Operating revenues include water sales and wastewater charges. Non-operating revenues include property taxes, interest, reimbursements, royalties, and grants. The following chart shows the total revenue, operating revenue, and non-operating revenue for Fiscal Years 2009 through 2016.

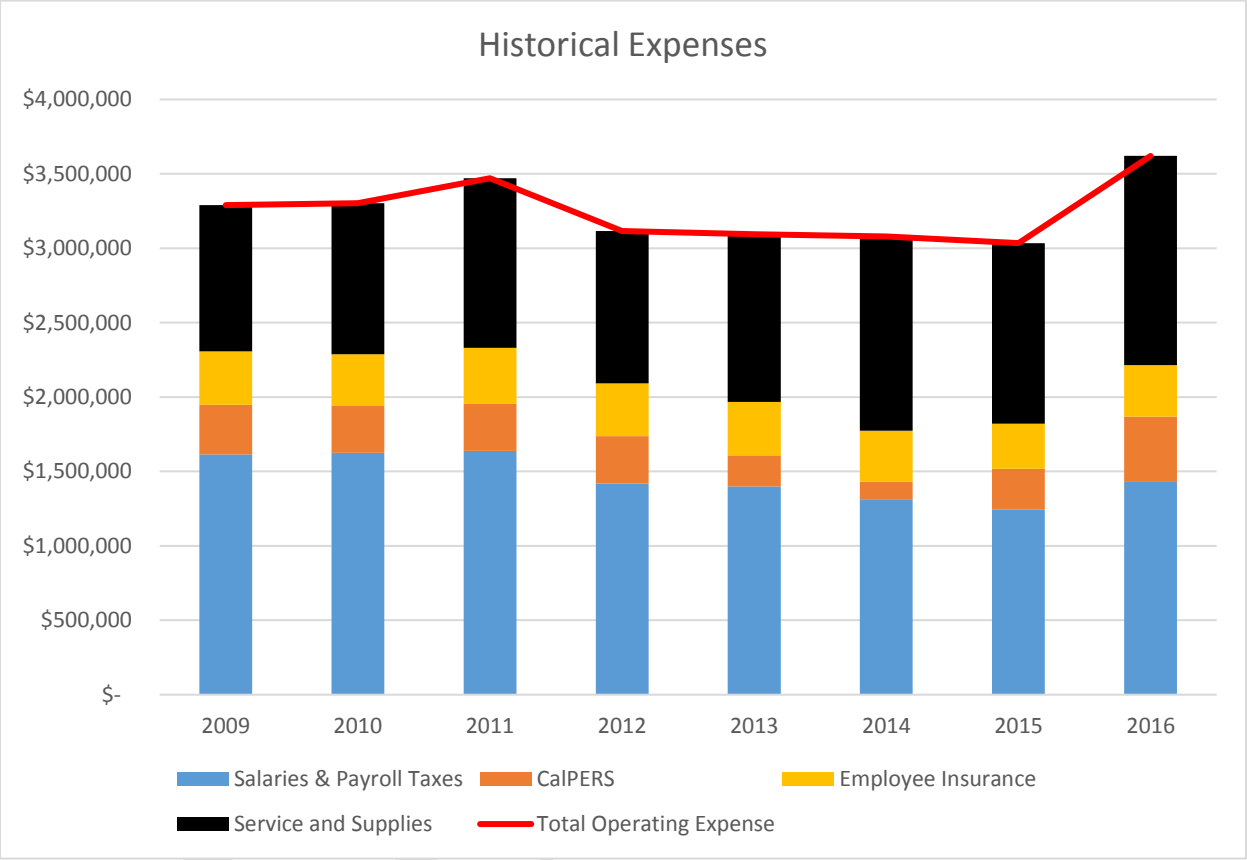


Since 2009, District revenue has fluctuated from a high of $4.1M in 2011 to a low of $3.6M in 2015. Total revenue in 2016 was $3.7M and is 10% lower than the high in 2011. During this period, operating revenue, primarily water sales, climbed from $2.0M in 2009 to a peak of $2.4M in 2013, and fell back to $2.0M in 2015. The decline in operating revenue is directly related to conservation measures enacted in response to the State's drought declaration. Operating revenue in 2015 was 17% lower in 2015 than 2013, which almost exactly mirrored water conservation in the District.

B. District Expenses

In response to declining revenues, the District aggressively cut costs from $3.5M in 2011 to $3.0M in 2015. This was achieved mostly by cutting staff and deferring maintenance to future years. The District went from 24 full time employees in 2011 to 18 full time employees in 2015.

The following charts illustrate the District expenditures over time, divided into broad categories.



As the District increased efforts to maintain infrastructure and began to hire staff to fill vacant positions, expenses correspondingly increased to $3.6M in 2016. One significant contributor to increased expenses between 2015 and 2016 is the new CalPERS calculations that went into effect in 2016.

It is instructive to note that while labor costs initially decreased from 2011 to 2015 before increasing in 2016, the cost of services and supplies continually increased from 2009 to 2016. The cost of service and supplies ranged from a low of $865,405 in 2009 to a high of $1.4M in 2016.

II. Forecast Revenues and Expenses

Taken as a whole, the District's revenues are currently exceeding expenses. At the same time, the District is experiencing cost pressures from CalPERS contribution rate increase, health premiums, merit and salary increases, general inflation, as well as aging infrastructure. The District has not been setting enough funds aside for long term recapitalization of pipelines, tanks, treatment plants, pumps, buildings, or information technology. This has led to significant current funding needs, which will only increase in the future and/or lead to severe deterioration of the District's infrastructure if not addressed soon.

The forecasts in this plan are based on best available information. At this time, only a baseline scenario was run; which ignores the possibility of a recession in the next ten years. The baseline scenario utilizes a modest but positive economic forecast. The potential for a recession during the term of this forecast should not be ignored, and this forecast will be updated to include a minor recession.

A. Revenues

Revenue projections are based on currently available information and are intended to identify trends. They should be updated annually and are not intended to establish current or future budgets. The District's two main revenue sources, water sales and property tax, are affected by weather and the economy; changes in climactic factors, and changes in local, regional, and national economic outlook will significantly impact these revenue projections. This forecast assumes that recent water conservation measures will continue, and that improvements to the local economy and property tax revenue will continue with modest positive increases.

The table below lists the escalator assumptions used for the revenue sources.

Revenue	Forecast Growth per Year
Water Sales	1.1%
Property Tax	3.0%
Miscellaneous Revenues (penalties, etc.)	2.5%

Water sales revenues are heavily influenced by climactic factors and Statewide regulations. The recent drought and Statewide regulations are directly responsible for a 17% reduction in water sales revenues between 2013 and 2015. The forecast assumes that the Statewide focus on water conservation will continue, and allows for 1.1% annual revenue growth rate based on the projections in the District's 2015 Urban Water Management Plan.

After years of declining to flat property tax revenues, the District has seen an annual average increase of 2.65% between 2012 and 2016, including a 4.92% increase from 2015 to 2016. The forecast assumes that a modest increase of 3% will continue.

For the purposes of the forecast, all remaining revenues are assumed to roughly track the consumer cost index and a value of 2.5% was used.

B. Expenses

This forecast divides expenses into labor related costs and service related costs. Labor costs include salaries, payroll taxes, retirement costs, and employee insurance (eg. medical). Service related costs include all non-labor costs that are necessary to provide water and wastewater services to the District's customers. There are significant amount of costs that are mandated by the local, state, and federal government that the District has little to no control over. For example, the District can control labor costs to some extent in that it authorizes specific positions and negotiates contracts that govern pay and benefits.

On the other hand, most retirement costs are the result of past labor negotiations and retirement benefit contracts.

The table below lists the escalator assumptions used for expenses.

Expenses	Forecast Growth per Year
Salary	2.5% after 17/18
Pension	6.0% after 20/21
Health Insurance	6.0%
Payroll Tax	2.5%
Materials and supplies	5.0%

The forecast assumes that water quality manager position will be added and filled in FY17/18. This position was eliminated after FY13/14 in response to declining revenues. After FY17/18, the forecast assumes a modest growth rate of 2.5% per year in order to allow step increases. The memorandum of understanding with one of the two labor unions at the District will be subject to renegotiation during 2017; this forecast assumes there will be no significant changes resulting from those negotiations.

The District participates in the California Public Employees Retirement System (CalPERS) and is required to pay an employer contribution toward the contracted benefits as determined by CalPERS. These costs are provided to the District from CalPERS each year. New for FY15/16 was the requirement for agencies to make a payment on the unfunded accrued liability (UAL), which is the amortized dollar amount needed to fund past service credit earned. For FY17/18, CalPERS estimates the UAL at $435,805, which is 9.4% greater than FY16/17. CalPERS estimates are used through FY20/21, and after that the forecast assumes these increases will continue at a slightly lower rate of 6.0% per year.

Health insurance costs are expected to rise at a similar rate to the recent past, and the forecast assumes a 6.0% annual increase.

Payroll taxes are expected to increase annually at roughly the consumer price index, which is assumed to be 2.5%.

Materials and supplies costs are expected to rise at a similar rate to the recent past, and the forecast assumes a 5.0% annual increase.

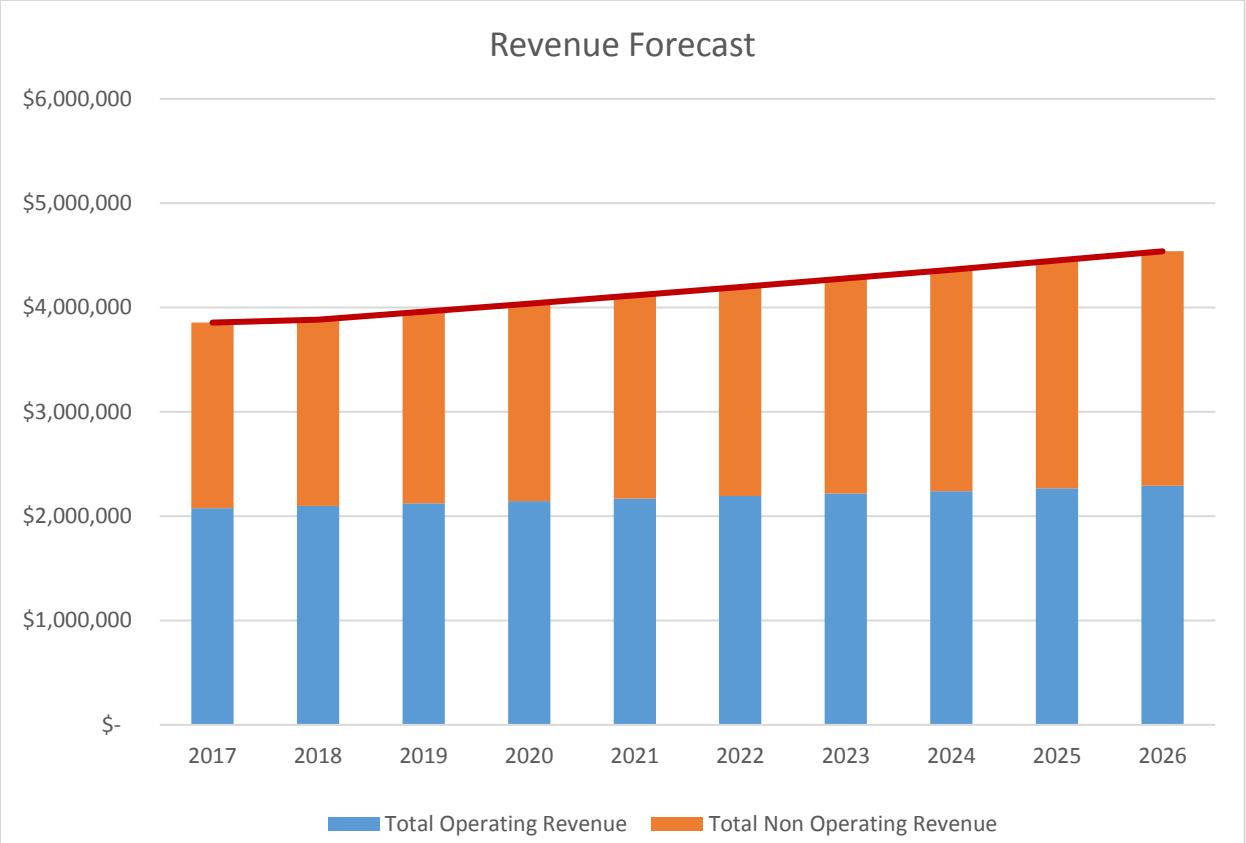
The graphs and table below show the comparison between the revenue and expense projections.

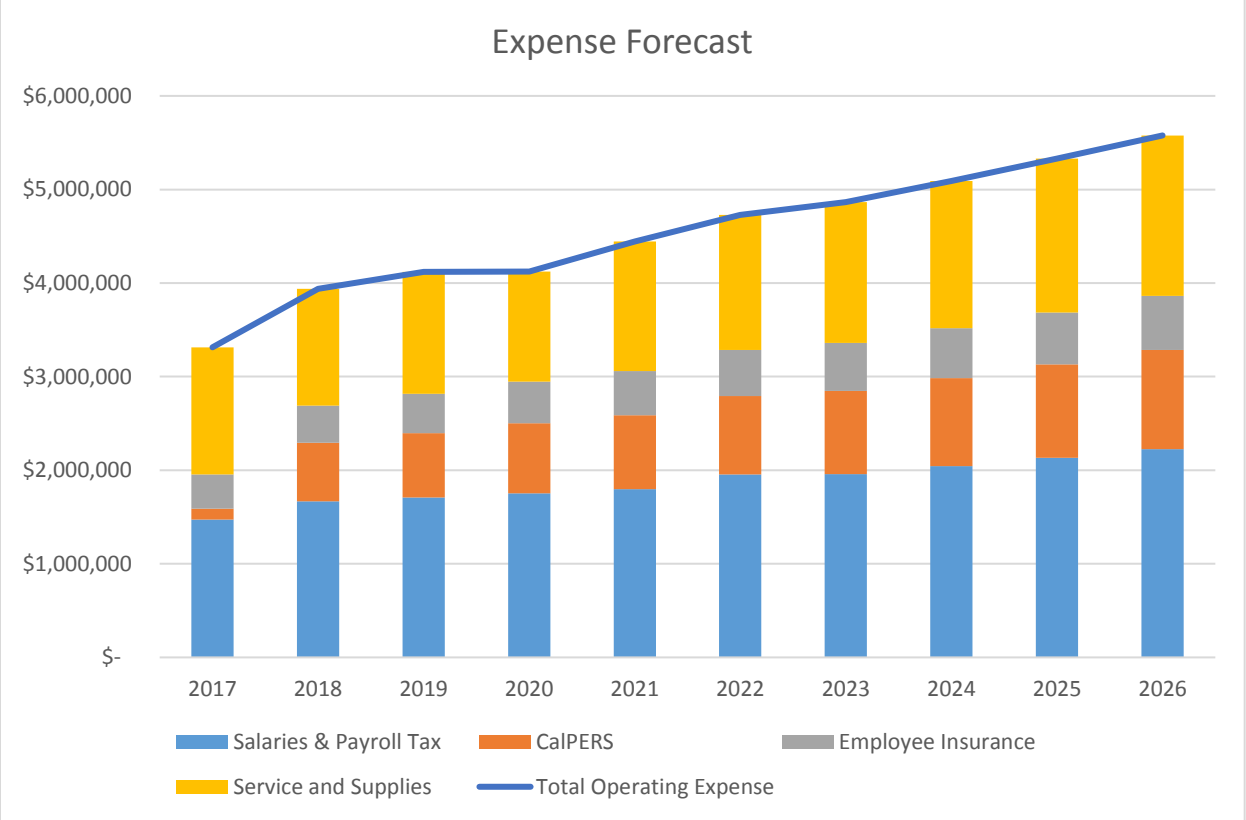
C. Reserves

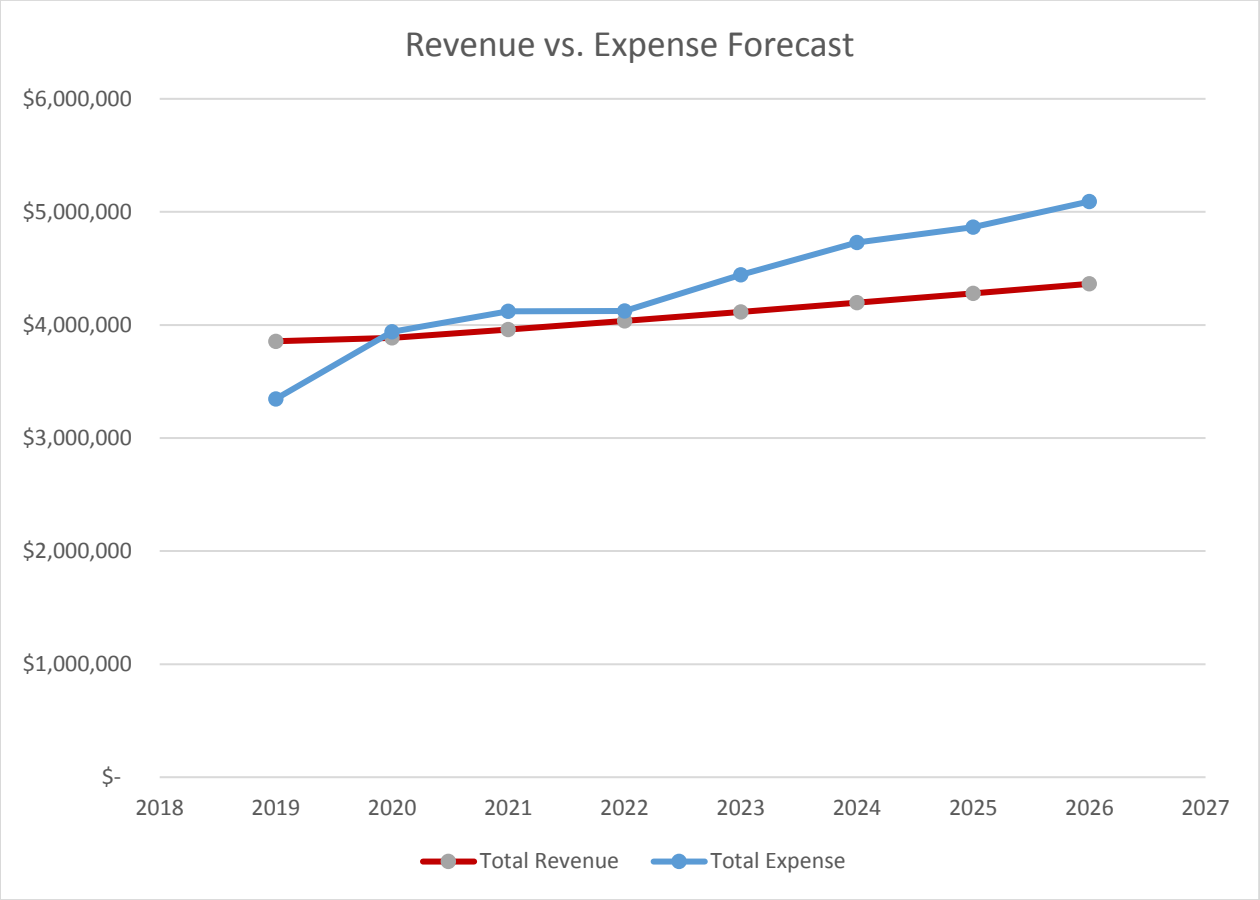
Current audited financial information shows the District has a total fund balance (restricted, plus unrestricted designated, plus unrestricted undesignated) of approximately $10M. At a minimum, the recommended minimum reserve targets for operating reserves of 45 days, debt reserves to meet lending requirements, and a 25% emergency reserve should be $2.2M. The District needs to review the individual fund balances to determine the appropriate funding levels for each individual fund, and some reallocation may be required.

The remaining fund balance of $7.8M is a mix of restricted and unrestricted funds that may be used towards capital replacement and capital improvement projects. A significant portion of these funds are restricted to be used for specific purposes or specific projects such as the Auburn Lake Trails Water Treatment Plant project. The District will need to evaluate the capital replacement needs and establish a capital replacement fund goal.

The following graphs and tables illustrate the forecasted revenues and expenditures.


Revenue Forecast
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
Total Operating Revenue
Total Non Operating Revenue


Expense Forecast
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
Salaries & Payroll Tax
CalPERS
Employee Insurance
Service and Supplies
Total Operating Expense


Revenue vs. Expense Forecast
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
Total Revenue
Total Expense

FORECASTED REVENUES AND EXPENSES

FISCAL YEAR END JUNE 30

	BUDGET	PROJECTED				PROJECTED				
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenues										
Operating										
Water Sales - Treated Residential	$ 1,285,000	$ 1,299,135	$ 1,313,425	$ 1,327,873	$ 1,342,480	$ 1,357,247	$ 1,372,177	$ 1,387,271	$ 1,402,531	$ 1,417,959
Water Sales - Treated Commercial	$ 185,000	$ 187,035	$ 189,092	$ 191,172	$ 193,275	$ 195,401	$ 197,551	$ 199,724	$ 201,921	$ 204,142
Water Connection										
Treated Total	*$ 1,470,000*	*$ 1,486,170*	*$ 1,502,518*	*$ 1,519,046*	*$ 1,535,755*	*$ 1,552,648*	*$ 1,569,728*	*$ 1,586,995*	*$ 1,604,451*	*$ 1,622,100*
Penalties	$ 37,000	$ 37,407	$ 37,818	$ 38,234	$ 38,655	$ 39,080	$ 39,510	$ 39,945	$ 40,384	$ 40,828
Other										
Water Sales - Untreated	$ 225,000	$ 227,475	$ 229,977	$ 232,507	$ 235,065	$ 237,650	$ 240,264	$ 242,907	$ 245,579	$ 248,281
Water Total	*$ 1,732,000*	*$ 1,751,052*	*$ 1,770,314*	*$ 1,789,787*	*$ 1,809,475*	*$ 1,829,379*	*$ 1,849,502*	*$ 1,869,847*	*$ 1,890,415*	*$ 1,911,209*
Waste Disposal Fees	$ 344,000	$ 347,784	$ 351,610	$ 355,477	$ 359,388	$ 363,341	$ 367,338	$ 371,378	$ 375,463	$ 379,594
Total Operating Revenue	***$ 2,076,000***	***$ 2,098,836***	***$ 2,121,923***	***$ 2,145,264***	***$ 2,168,862***	***$ 2,192,720***	***$ 2,216,840***	***$ 2,241,225***	***$ 2,265,878***	***$ 2,290,803***
Non Operating										
Property Taxes	$ 1,460,000	$ 1,503,800	$ 1,548,914	$ 1,595,381	$ 1,643,243	$ 1,692,540	$ 1,743,316	$ 1,795,616	$ 1,849,484	$ 1,904,969
Interest	$ 40,000	$ 41,000	$ 42,025	$ 43,076	$ 44,153	$ 45,256	$ 46,388	$ 47,547	$ 48,736	$ 49,955
Water Agency Cost Reimbursement	$ 45,000									
Restricted Benefit Charges		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Leases	$ 70,000	$ 71,750	$ 73,544	$ 75,382	$ 77,267	$ 79,199	$ 81,179	$ 83,208	$ 85,288	$ 87,420
Hydro Royalty	$ 60,000	$ 61,500	$ 63,038	$ 64,613	$ 66,229	$ 67,884	$ 69,582	$ 71,321	$ 73,104	$ 74,932
SMUD	$ 105,000	$ 107,625	$ 110,316	$ 113,074	$ 115,900	$ 118,798	$ 121,768	$ 124,812	$ 127,932	$ 131,131
DWR Grant										
FEMA Grant										
Gain on sale										
Other (Grants, etc.)	$ -									
Total Non Operating Revenue	*$ 1,780,000*	*$ 1,785,675*	*$ 1,837,836*	*$ 1,891,526*	*$ 1,946,791*	*$ 2,003,677*	*$ 2,062,232*	*$ 2,122,504*	*$ 2,184,545*	*$ 2,248,406*
Total Revenue	***$ 3,856,000***	***$ 3,884,511***	***$ 3,959,759***	***$ 4,036,791***	***$ 4,115,654***	***$ 4,196,397***	***$ 4,279,072***	***$ 4,363,729***	***$ 4,450,423***	***$ 4,539,209***
Expenses										
Operating										
Salaries & Payroll Tax	$ 1,473,241	$ 1,668,835	$ 1,710,556	$ 1,753,320	$ 1,797,153	$ 1,955,689	$ 1,957,656	$ 2,043,206	$ 2,132,494	$ 2,225,684
CalPERS	$ 117,592	$ 625,479	$ 684,997	$ 747,482	$ 791,143	$ 838,612	$ 888,928	$ 942,264	$ 998,800	$ 1,058,728
Employee Insurance	$ 363,019	$ 397,000	$ 420,820	$ 446,069	$ 472,833	$ 492,314	$ 512,597	$ 533,716	$ 555,705	$ 578,600
Service and Supplies	$ 1,359,553	$ 1,247,382	$ 1,303,313	$ 1,177,760	$ 1,382,268	$ 1,443,088	$ 1,506,584	$ 1,572,873	$ 1,642,080	$ 1,714,331
Total Operating Expense	*$ 3,313,405*	*$ 3,938,696*	*$ 4,119,686*	*$ 4,124,631*	*$ 4,443,397*	*$ 4,729,702*	*$ 4,865,765*	*$ 5,092,059*	*$ 5,329,079*	*$ 5,577,343*
Total Non Operating Expense	*$ 33,000*									
Total Expense	***$ 3,346,405***	***$ 3,938,696***	***$ 4,119,686***	***$ 4,124,631***	***$ 4,443,397***	***$ 4,729,702***	***$ 4,865,765***	***$ 5,092,059***	***$ 5,329,079***	***$ 5,577,343***
Total Revenue - Total Expense	***$ 509,595***	***$ (54,185)***	***$ (159,927)***	***$ (87,840)***	***$ (327,743)***	***$ (533,305)***	***$ (586,693)***	***$ (728,330)***	***$ (878,655)***	***$ (1,038,134)***
Beginning Cash & Investments	*$ 9,466,509*	*$ 9,976,104*	*$ 9,921,919*	*$ 9,761,992*	*$ 9,674,152*	*$ 9,346,408*	*$ 8,813,104*	*$ 8,226,410*	*$ 7,498,081*	*$ 6,619,426*
Ending Cash & Investments	*$ 9,976,104*	*$ 9,921,919*	*$ 9,761,992*	*$ 9,674,152*	*$ 9,346,408*	*$ 8,813,104*	*$ 8,226,410*	*$ 7,498,081*	*$ 6,619,426*	*$ 5,581,292*
Restricted Fund Balance	*$ 4,477,966*	*$ 4,453,949*	*$ 4,382,158*	*$ 4,342,727*	*$ 4,195,603*	*$ 3,956,202*	*$ 3,692,836*	*$ 3,365,888*	*$ 2,971,460*	*$ 2,505,442*
Unrestricted, Designated Fund Balance	*$ 4,517,132*	*$ 4,491,653*	*$ 4,419,254*	*$ 4,379,489*	*$ 4,231,119*	*$ 3,989,692*	*$ 3,724,096*	*$ 3,394,381*	*$ 2,996,614*	*$ 2,526,651*
Unrestricted, Undesignated Fund Balance	*$ 981,006*	*$ 976,317*	*$ 960,580*	*$ 951,937*	*$ 919,687*	*$ 867,209*	*$ 809,479*	*$ 737,811*	*$ 651,351*	*$ 549,199*

The District maintains over 70 miles of ditches and canals, 200 miles of water pipelines, two water treatment plant, 10 tanks, 5 pumping stations, three reservoirs, two State regulated dams, 2 miles of sewer pipelines, 5 community wastewater disposal fields (eg. leach fields), corporation yard, and office building. The recapitalization cost associated with this infrastructure is estimated at over $156M. The District needs to establish an asset management plan that can be used to plan and fund replacement of this infrastructure before catastrophic failures occur. Without adequate funding of maintenance and replacement, infrastructure will continue to deteriorate and the cost to replace will increase. Key decisions that the District needs to make is the appropriate fund balance for a capital replacement fund and how much to set aside in that fund each year.