

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO.1**



**FINAL BUDGET
FY 2021/2022**



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MISSION STATEMENT

To provide the residential and agricultural customers in the Santa Ynez River Water Conservation District, Improvement District No.1 service area with reasonably priced, reliable, high quality water supply, and efficient and economical public services.

DISTRICT OVERVIEW, STRUCTURE AND STAFFING

The Santa Ynez River Water Conservation District, Improvement District No.1 (District) was formed in 1959 under the Water Conservation District Law of 1931, Division 21, Section 74000 et seq. of the California Water Code (the Act) for the purpose of furnishing water and related water supply services within the District's boundaries. The District has operated continuously since 1959.

Located in the central portion of Santa Barbara County, the District serves the communities of Santa Ynez, Los Olivos, Ballard, the Santa Ynez Band of Chumash Indians, and the City of Solvang (limited basis). With a service area population of approximately 6,737 (excluding the City of Solvang), the District currently provides water directly to approximately 2,598 municipal and industrial customers (including domestic/residential, commercial, institutional, rural residential, and fire service) and approximately 97 agricultural customers. The District encompasses an area of approximately 10,850 acres (including approximately 1,300 acres within Solvang).

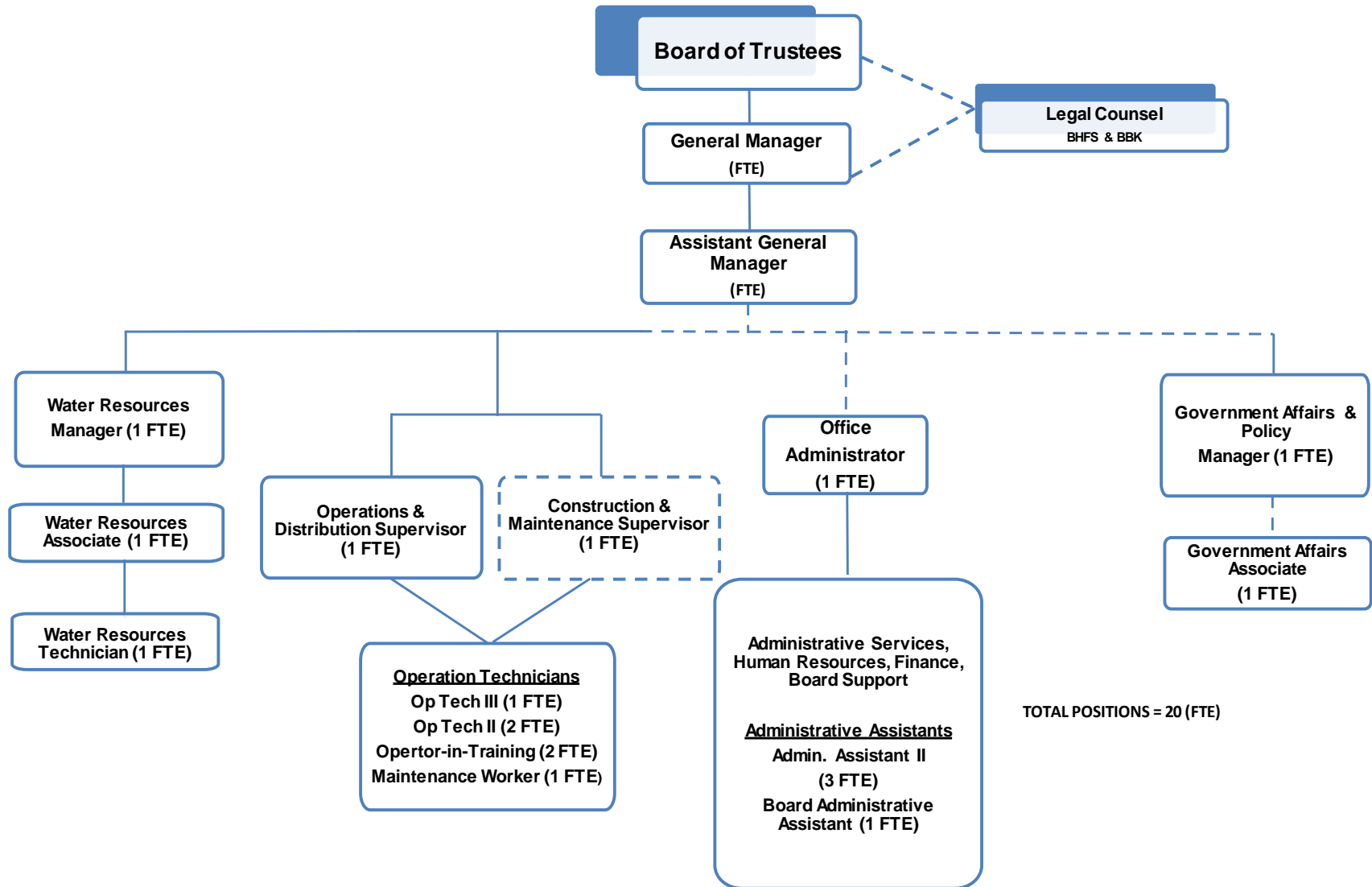
The District obtains its water supplies from the Cachuma Project/State Water Exchange, direct diversions from the Cachuma Project (as needed), contractual deliveries from the State Water Project as a member agency of the Central Coast Water Authority, production from the Santa Ynez Uplands Groundwater Basin, and diversions from the Santa Ynez River alluvium. The District's major activities include acquisition, construction, operation, and maintenance of works and facilities for the development and use of water resources and water rights, including without limitation, works and facilities to divert, store, pump, treat, deliver, and sell water for reasonable and beneficial uses by the District's domestic and agricultural accounts.

Operational Information

- District Pipelines (in miles) = 92
- Number of Booster Pump Stations = 4 with 12 pumps
- Number of Active Wells = 18
- SWP/ID No.1 Turnout = 5 pumps
- Number of water storage reservoirs/tanks = 4 with a total capacity of 16.7 million gallons
- Current number of approved, funded full-time equivalent (FTE) positions = 20

ORGANIZATION CHART

FISCAL YEAR 2021/2022



EXECUTIVE SUMMARY FISCAL YEAR 2021/22

BUDGET PROCESS

The District's fiscal year budget is one of the most important documents prepared by management for the Board of Trustees. The financial accounts and line items reflected in this document and the FY 2021/22 Final Budget describe the annual fiscal year budget beginning July 1, 2021 and ending on June 30, 2022.

The development and adoption of the District's annual budget is based on projected revenues and expenditures, as well as identified projects and programs which provides the financial foundation for District activities. The budget serves as a roadmap for ensuring reasonable costs and predictable customer rates. The budget blends advanced revenue forecasting and effective expenditure management with the infrastructure investment needed to deliver safe, reliable, cost-effective, and sustainable water supplies to the communities served by the District.

Through the process of planning and preparing the budget, management compared the 2016 Water Rate Study results with the prior year financial conditions and year-end estimated outcomes, then forecasted the funding needs of the District in order to continue to provide high levels of water service, meet regulatory requirements, and comply with applicable financial obligations throughout the fiscal year and beyond.

To determine the annual operating budget and capital costs necessary to provide water service, the General Manager and Assistant General Manager work with the Water Resources Manager, Operations & Distribution Supervisor, and Construction & Maintenance Supervisor to identify and prioritize estimated operating expenditures and capital improvement projects. Once a Final Budget is prepared, it is presented to the Board of Trustees at a public meeting to provide the opportunity for questions, modifications, and direction to staff to finalize the budget for Board approval at a subsequent public meeting. The Final Budget provides a necessary foundation for the District's administrative, operations, and maintenance programs, debt service obligations, and other financial commitments and service objectives for the coming year.

REPORTING BASIS

The District utilizes the accrual basis for budgeting purposes and for accounting and financial reporting. The accrual method recognizes revenues and expenses in the period in which they are earned and incurred. The accrual method is the Generally Accepted Accounting Principal (GAAP) for financial reporting.

The District reports its activities as an enterprise fund. This method of reporting is used to account for operations that are financed and administered in a manner similar to a private business enterprise. The costs of providing water and services to customers on a continuing basis (including replacement of existing assets) should be financed or recovered primarily through user charges and the costs are borne by the customers who are receiving the benefit of the assets.

The FY 2021/22 Final Budget was developed from the Uniform System of Accounts for Water Utilities which includes a set of tables providing details for revenue and expenditure categories of the

District. The tables contained in this Report are intended to be reviewed in connection with the actual FY 2021/22 Final Budget document. The accounting for the budget is supported by the QuickBooks accounting system which is verified annually by an independent audit performed by Bartlett, Pringle & Wolf. The budget tables show categories of the operating revenues as compared to operating expenditures along with debt service and special studies expenditures, including but not limited to compliance with various state and federal regulatory requirements applicable to fisheries protection in the Lower Santa Ynez River, compliance with water rights orders issued by the State Water Resources Control Board, and implementation of contractual requirements. The amounts of the District's operating expenses are to be funded by operating revenues and as necessary and appropriate from reserve funds. The Capital Improvement Project expenditures can be funded by a combination of operating revenues and reserves.

BUDGET AND RESERVE FUND BACKGROUND

The 2016 Water Rate Study, inclusive of the approved Water Rate Schedule, was adopted by the District's Board of Trustees on December 13, 2016 and became effective on February 1, 2017. The Water Rate Study and Schedule provide the foundation for incrementally increased revenues over a five-year period. Rates were developed to meet operating expenses, debt service obligations, capital improvement projects (partially), and other planned expenditures. The Water Rate Study also includes a Reserves analysis and a plan for adding to the District's reserve funds over the same five-year period to allow for recovery of reserve deficits that occurred over the previous six-year period. The FY 2021/22 Final Budget proposes to fully fund all expense categories, including Operations and Maintenance (O&M), General and Administrative (G&A), Debt Service, Other Expenses and Special Studies, and Capital Improvement Project program costs, leaving a net balance of \$341,874 which will be added to the District's reserves.

Below are the past fiscal year and most current Reserve balances based on actual accounting and audit information with the Reserve Balance table reflecting reserves in our Local Agency Investment Fund (LAIF).

	<u>RESERVE BALANCE</u>	
	June 30, 2020	March 31, 2021 ¹
<u>BOARD RESERVED</u>		
Debt Repayment Obligation	\$0	\$2,407,942 ²
Repair & Replacement	\$1,474,905	\$2,938,191
Plant Expansion	\$2,488,196	\$4,218,464
Subtotal	\$3,963,101	\$9,564,597
<u>RESTRICTED RESERVE</u>		
Dev. Fee; SY Septic	\$109,212	\$109,212
State Water Project Reserve ³	\$3,000,000	\$3,000,000

1. Amounts reflected in this column represent reserve balance at 9-months of current FY 2020/21. The year-end reserve amount will change at June 30, 2021 to reflect a balance based on actual accounting for projects and debt service expenditures.
2. Amounts reflected in this column represent a Debt Payment Obligation reserve balance at 9-months of current FY 2020/21. The year-end reserve amount in this category will change at June 20, 2021 to reflect payments for the 2004A Bond payable on June 1, the SWP payment due on June 1, and the USBR Safety of Dams Repayment Contract payment.
3. One year set aside payment established to guarantee ID No.1's contractual debt obligation in the event of a default by the City of Solvang.

BUDGET IN DETAIL

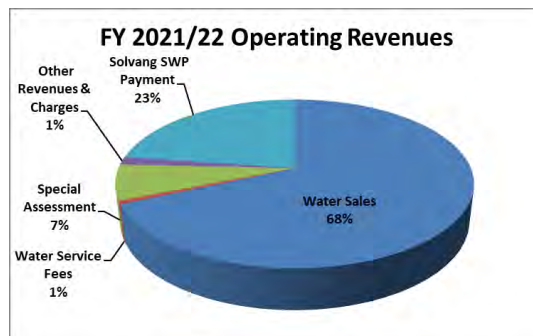
The specific revenue and expenditure categories of the budget account for the scheduled increase in water rates and charges and corresponding revenues (**Option 1**), prior year audit data, and financial account information. The categories are displayed using actual 9-month revenue and expenditure data from the current fiscal year, and are also projected to show the fiscal year-end figures (June 30, 2020). This information is used as part of the evaluation to develop the FY 2021/22 Final Budget. **As reflected in Appendix A to the FY 2021/22 Final Budget, management has prepared a revenue and expenditure comparison based on two additional scenarios. One scenario (Option 2) is based on the final scheduled water rate increase as set forth in the 2016 Water Rate Study being deferred for the entirety of FY 2021/22 and therefore increased water sales revenues would not occur. The second scenario (Option 3) is based on increasing the consumption charges only as set for in the 2016 Water Rate Study with no increase to the meter charges.**

The FY 2021/22 Final Budget of \$12,894,811 reflects an overall 4.4% increase compared to the projected June 30, 2021 year-end results, but is 5.8% less than the financial projections adopted as part of the 2016 Water Rate Study. As noted above, the budget assumes implementation of the last rate increase under the Water Rate Study for the entire fiscal year period (July 1, 2020 through June 30, 2022), which are then applied to forecasted water sales and meter charges in FY 2021/22 based on actual sales and charges in the current and prior fiscal years. The budget also assumes no increase in the \$875,000 Special Assessment Ad Valorem Tax assessment, even though the authorized limit for FY 2021/22 is \$2,136,415. Other factors such as capital facilities charges and interest income are integral parts of the forecast. The results shown below reflect that budgeted revenues will meet projected operating expenditures and debt service obligations, and result in a projected net revenue balance of \$2,722,813. This revenue balance will fund the Other Expenses and Special Studies categories as further detailed in the Final Budget, leaving a balance of \$2,179,313 in net operating revenues, which will fully fund the proposed \$1,837,439 Capital Improvement Projects (CIP) Program for FY 2021/22, leaving a net balance of \$341,874 which will be added to the District’s reserves.

SUMMARY OF REVENUES

The District operates entirely based on the cost of service with revenues derived primarily from water sales, the special tax assessment, fixed monthly service charges, and other water services. For the FY 2021/22 Final Budget, the total operating revenues are projected at \$12,894,811 including the SWP revenue of \$2,931,883 from the City of Solvang. Actual projected total revenues are \$9,962,928 without the SWP pass-through payment. Table 2 below summarizes the distribution of the District’s projected revenue sources for FY 2021/22.

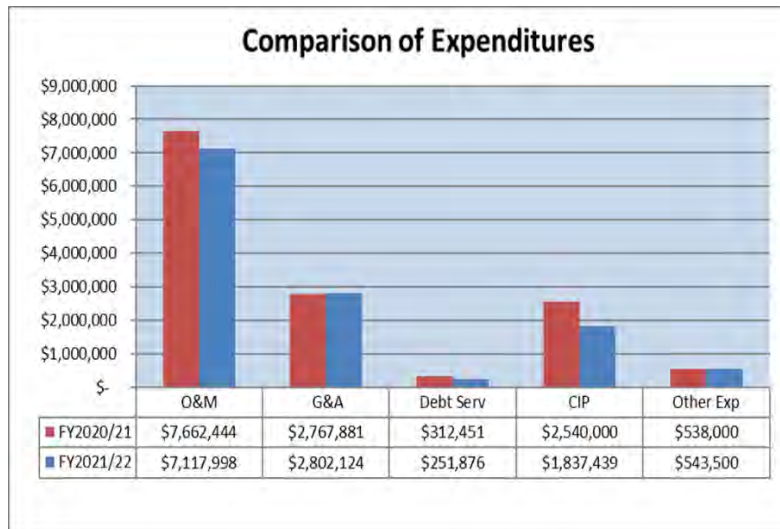
Table 2



SUMMARY OF EXPENDITURES

Based on the FY 2021/22 Final Budget, the projected water sales and other operating revenues, including the FY 2021/22 Special Assessment, will adequately fund the overall operating expenditures, including all categories of Operation & Maintenance, General & Administrative, and Debt Service, and result in a net revenue balance of \$2,722,813. This net balance of operating revenues is proposed to fund the District’s Other Expenses and Special Studies categories as further detailed in the Final Budget. Thereafter, a net revenue balance of \$2,179,313 is proposed to fully fund the District’s FY 2021/22 CIP program. Table 3 below shows all expenditure categories for FY 2021/22 in comparison to the previous fiscal year.

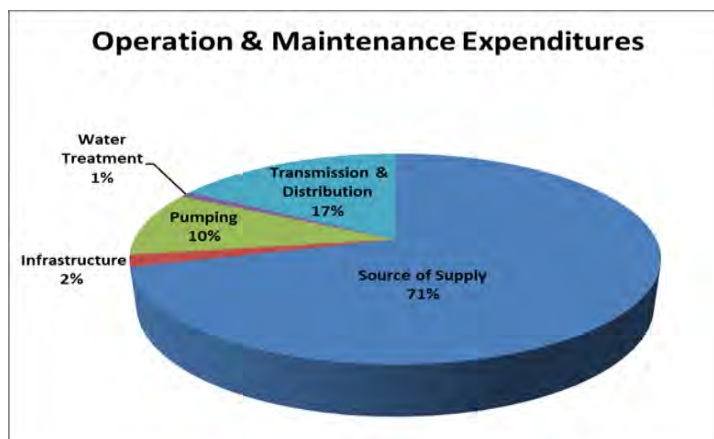
Table 3



EXPENDITURES - OPERATION AND MAINTENANCE (O&M)

The overall budget for O&M expenditures for FY 2021/22 is 7.6% (\$544,446) less than last year’s FY 2020/21 budget, with the Source of Supply category having the single largest decrease. This is directly attributable to the California Department of Water Resources (DWR) charges for State Water Project (SWP) deliveries being reduced by \$442,307 for ID No.1 and \$211,067 for the City of Solvang’s passthrough expenses for the year. Additionally, the United States Bureau of Reclamation (USBR) charges for Cachuma Project supplies reflect a \$27,187 reduction in the coming fiscal year. Table 4 below illustrates the distribution of costs for the O&M expense categories.

Table 4



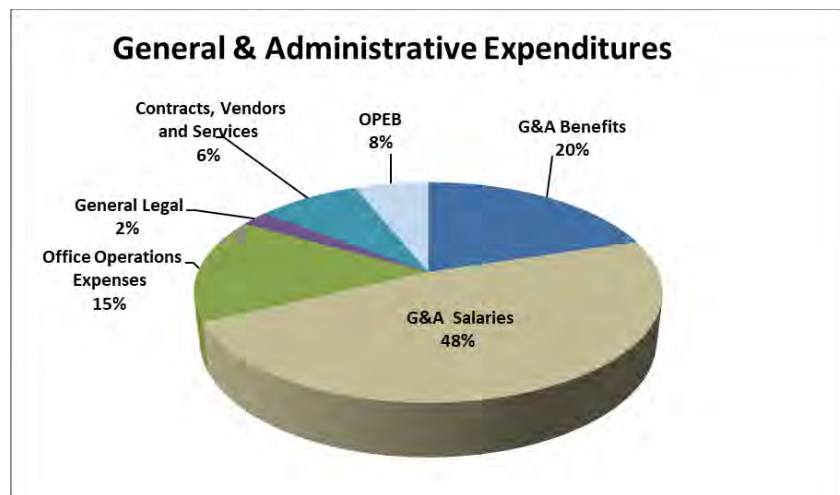
EXPENDITURES - GENERAL AND ADMINISTRATION (G&A)

The overall budget for G&A expenditures for FY 2021/22 is 1.2% (\$34,243) more than last year’s FY 2020/21 budget. The increase reflects a proposed 1.5% Cost of Living Adjustment (COLA) and merit increases in accordance with the District’s adopted Personnel Policy and Salary Schedule. The COLA is consistent with industry standards and the District’s past practice, and is based upon the Consumer Price Index (CPI) nine-month calculation data (July-March). The COLA adjustment is obtained by averaging the prior nine-month indexes for all urban wage earners and clerical workers and comparing that average to the previous nine-month averaged data for the Los Angeles-Long Beach-Anaheim area of California.

Other administrative expenses, including payroll taxes, office maintenance, office supplies, and miscellaneous service contracts are projected to increase only slightly due to inflationary and vendor cost increases.

Notably, the expenditure increase is partially offset by reductions in health and dental expenses resulting from the removal of beneficiaries from the plan, savings on Santa Barbara County elections fees, and decreased travel expenses. Table 5 below illustrates the distribution of costs for the G&A expense categories.

Table 5



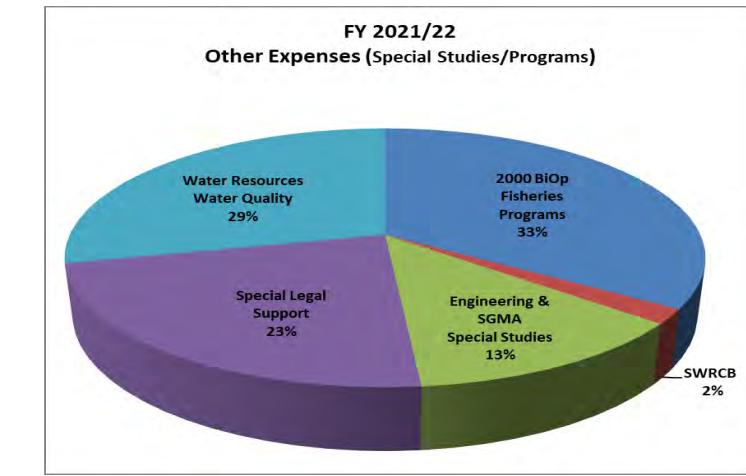
DEBT SERVICE

The District’s Debt Service accounts for FY 2021/22 include (1) the USBR Safety of Dams repayment (principal and interest) which remains constant for the 50-year term at \$26,976 per year, and (2) the Series 2004A Bond repayment (principal and interest) of \$224,900 per year, which decreases annually based on the repayment terms. The total debt service obligations must be paid from operating revenues on June 1 of each year. As detailed above, the FY 2021/22 operating revenues, inclusive of the Special Tax Assessment, are projected to fully fund the District’s operating expenses plus debt service.

OTHER EXPENSES

For FY 2021/22, the budgeted amount of \$543,500 in the Other Expenses category will be funded by the net revenue balance of \$2,722,813. The FY 2021/22 budget for Other Expenses is \$50,500 higher than what was budgeted in FY 2020/21, where an additional \$60,000 is budgeted for the coming fiscal year to undertake a new water rates study. As fully detailed in the 2021/22 Final Budget, the cost categories are projected to shift in several ways, which reflect ongoing work related to the new State Water Resource Control Board Order and related studies for the Cachuma Project, the ongoing federal Endangered Species Act Section 7 re-consultation process for the Cachuma Project, ongoing water right proceedings in the Lower Santa Ynez River, and an updated District-wide water system study, among other matters. Table 6 below illustrates the distribution of costs for the Other Expenses categories.

Table 6



CAPITAL IMPROVEMENT PROJECTS (CIP)

In years past, the District’s CIP program was seriously compromised by shortfalls in operating revenues caused by outdated water rates and a multi-year suspension on the levy of a Special Tax Assessment. Those shortfalls required incremental drawdowns of District reserves simply to meet annual operating expenses and debt service. Consequently, monies were not available to fund the CIP program, and needed capital improvements to the District’s aging water system were deferred.

On the other hand, when operating revenues are healthy and able to meet and exceed operating expenses, net revenues are available to fund the District’s Debt Service and Other Expenses (including Special Studies) and then contribute to building reserves and/or funding the CIP program. In FY 2018/19, revenues began to stabilize, allowing for net revenues to be added to reserves for capital improvements. In FY 2020/21, the District was able to budget for important infrastructure investments. While many of those CIP projects were undertaken and completed, several of them were suspended due to the COVID-19 pandemic and related orders and restrictions issued by federal, state, and local authorities. Those capital projects that were unable to be completed during FY 2020/21 have been rolled forward into the FY 2021/22 Final Budget.

For FY 2021/22, a total of \$1,837,439 is budgeted for the CIP program. This amount is less than the \$2,375,000 CIP budget in FY 2020/21, yet as noted above the District was able to begin and/or complete several of the important projects that were included in last year’s budget. Of particular note, the entire

CIP program for FY 2021/22 will be funded from District's net revenues of \$2,179,313 (after funding Other Expenses) and will not require funding from District reserves. The CIP items include projects needed for replacements, betterments, upgrades, and repairs of the District water supply and distribution system. Projects that were not completed during FY 2020/21 are noted as a "Rollforward Project" below. Additional detail regarding the FY 2021/22 CIP program is provided below.

Account 100332 (\$375,000) – Water Treatment Plant/Building (Rollforward Project) – This account was budgeted to include a combination steel building to house a water treatment and control system for the District's office wells, along with a garage bay for District equipment and needed expansion and upgrade of field crew quarters. Final architectural and engineering design work has been completed. The budgeted amount for FY 2021/22 will remain unchanged from the prior fiscal year, which will be directed to modifying the design to incorporate a District-designated Board Room, finalizing the building design, permitting costs and processing, and the initial phase of construction.

100333 (\$385,000) – Cr6 Blending Station/Facilities (Rollforward Project) – With the resurgence of a new Cr6 water quality standard that may be re-adopted by the State Water Resources Control Board in the coming fiscal year, wherein such Cr6 standard may again impose a limit of 10 ppb or less, funds could be expended for design and/or construction of an interim station/facility to partially mitigate losses in the District's ability to produce upland groundwater.

100372 (\$22,000) – Office Computers, Furniture & Equipment - This account includes the replacement of six office computers as part of the District's routine computer replacement program. The replacement computers costs include the purchase of equipment, software, and network set-up by the District's IT vendor, estimated at \$11,400. The remaining \$10,600 will be utilized to furnish the newly configured semi-private office space for the Office Administrator with an ergonomic stand-up workstation, overhead and floor file cabinets, printer, and other standard office equipment.

100318 (\$481,200) – Meter Replacement/Utility Billing – The Districtwide meter replacement program began in FY 2019/20. This multi-phase replacement program consists of the purchase and installation of new meters to replace meters that have been in service for approximately 20 years and have diminished capabilities to provide accurate accounting of water use. Phase 1, which began mid-year FY 2019/20, resulted in a total of 292 meters being replaced, along with the purchase of necessary hand-held devices for meter reading. Phase 2, intended to commence at the beginning of FY 2020/21, was delayed due to COVID-19. To date, 62% (or 388) of the 630 meters that were budgeted for installation during FY 2020/21 will be completed by June 30, 2021. The FY 2021/22 Final Budget proposes to replace 981 meters (ranging in size from 5/8" to 8"), at a cost of \$481,200.

100371;100140 (\$55,000) – Office Building/Shop Improvements (Rollforward Project) – This account includes construction modifications to the existing staff room at the District office to create a semi-private office space for the Office Administrator position, as well as minor renovations to the office kitchen to upgrade counter tops, cabinets, electrical outlets, and fixtures that have been in place since the 1960s. Both modifications/upgrades are estimated at a total of \$45,000. The remaining \$10,000 will be utilized for upgrades to the shop area, also built in the 1960s, to include additional shelving for tools and equipment, workbenches, and related work stationing for the field crew.

100181-100186 (\$1,000) - ESRI CAD-GIS – This account includes \$1,000 for equipment needs and/or software upgrades necessary to continue the seamless operation of the District’s GIS system that is used to update the District’s atlas.

100350 (\$114,139) – Upland Wells (Partial Rollforward Project) – Funds will be used to upgrade the electrical panels at Well Nos. 7 and 25 (\$106,139), which are substantially obsolete and pose potential safety hazards. The current electrical panel and components need to be brought up to current day standards which will improve efficiency and operational safety. Funds to complete this task include design work, construction drawings, specifications, arch flash analyses, and construction.

New project work under this line-item (\$8,000) includes Final design work, construction drawings, and bid support from a licensed electrical engineer for the electrical panel at Well No. 28. The construction component of this project will be budgeted in the next fiscal year.

100106 (\$60,000) – Rehab/Replace/New Transmission Mains/Laterals/Valves (Partial Rollforward Project) - Funds will be used for the replacement of mainline valves that are broken or inoperable at seven locations within the District (\$35,500), and for the installation of a 6-inch and 8-inch isolation valve (\$15,000) in Los Olivos to reduce the number of affected customers and commercial buildings when repair or replacement work is required in the area. The remaining \$10,000 will be utilized for any unanticipated mainline breaks or mainline reconfiguration that may occur or be necessary during the year.

100170 (\$25,000) – 6 CFS Well Field – This account includes \$15,000 for the needed replacement of a pump and motor at the 6 CFS well field. The remaining \$10,000 will be used to complete the final design work, construction drawings, and bid support for the electrical panel located at Well No. 8 in the 6.0 CFS well field. The construction component of this project will be budgeted in the next fiscal year.

100335 (\$5,000) – SWP Pump Station/Pipeline - This account includes funds for the needed replacement of valves and mechanical equipment at the Mesa Verde Pump Station to ensure reliable deliveries of SWP entitlement and Cachuma exchange water.

100373 (\$47,000) – Fleet Vehicle Replacement – This account includes funds for the purchase of one replacement fleet vehicle (field truck). This vehicle will replace an existing 2004 model with approximately 152,000 miles. The vehicle slated for replacement is beginning to incur ongoing repair costs and is diminishing in reliability.

100171 (\$22,000) – 4 CFS Well Field (Rollforward Project) – This account includes \$15,000 for roof repairs to a wooden vault and installation of a new drain line. This project is required to maintain the integrity of the well. The remaining \$10,000 will be used to complete the final design work, construction drawings, and bid support for the electrical panel located at the 4 CFS well field. The construction component of this project will be budgeted in the next fiscal year.

100311 (\$11,837) – Chlorine Facilities/Wells (Partial Rollforward Project) – Funds from this account will be used to complete the installation of chlorine level monitoring hardware and SCADA

monitoring equipment at eight (8) remote chlorination stations (i.e., wells and well fields). These monitors will provide real-time information for pumping wells, confirming active chlorination, and remotely alerting operators of possible chlorine tank or other chlorination system leaks. The equipment and materials were purchased in FY 2020/21. The \$11,837 will be utilized for the required SCADA programming associated with this project.

100195 (\$7,000) - Refugio 2 Booster Pump Station – Funds will be utilized to complete the final design work, construction drawings, and bid support for the electrical panel at this location. The construction component of this project will be budgeted in the next fiscal year.

100196 (\$134,263) – Alamo Pintado Booster Pump Station (Rollforward Project) – Funds from this account will be used to upgrade the electrical panel, add a manual transfer switch, and complete an arch flash analysis at the Alamo Pintado Booster Pump Station, which is substantially obsolete and poses a potential safety hazard. The current electrical panel and components need to be brought up to current day standards which will improve efficiency and operational safety.

100197 (\$48,500) – Refugio 3 Booster Pump Station (Rollforward Project) – Funds from this account will be used to upgrade the electrical panel at the Refugio 3 Booster Pump Station, which is substantially obsolete and poses a potential safety hazard. The current electrical panel and components need to be brought up to current day standards which will improve efficiency and operational safety.

100198 (\$23,500) – Meadowlark Booster Pump Station (Partial Rollforward Project) – Funds from this account will be used for two different projects at this location.

The first project is the construction of an open sided tin-roof pole barn structure to house the District's large equipment, trailers, and materials to mitigate weather damage currently being incurred for lack of protective cover. Approximately \$5,000 in materials and supplies is anticipated to be spent on this project. The construction work will be completed by the District's field team.

The remaining \$18,000 will be used to complete the final design work, construction drawings, and bid support for the electrical panel at the site. The construction component of this electrical project will be budgeted in the next fiscal year.

100102 (\$20,000) Zones 1 & 2 Reservoirs (Partial Rollforward Project) – Funds in this account will be utilized for electrical upgrades at the Zone 1 Reservoir site to accommodate the installation of two GridBee mixers in the Reservoir. Upgrades will include upsizing the breakers at the meter/main panel, installation of a new distribution subpanel adjacent to the Reservoir, installation of a new overhead feed from the meter location to the subpanel, and installation of conduit and feeder wiring to the reservoir mixers.

Notably, if additional CIP expenditures are needed, funding will come from the Repair and Replace and/or Plant Expansion Reserves. If such funding is not sufficient or undesirable, the projects will be deferred or re-prioritized.

FY 2021/22 FINAL BUDGET CONCLUSION

The FY 2021/22 Final Budget revenues of **\$12,894,811** are projected to be sufficient to meet total O&M expenses, G&A expenses, and Debt Service obligations of **\$10,171,998** with a net revenue balance of **\$2,722,813**. This net revenue balance of \$2,722,813 will be used to fund the \$543,500 of Other Expenses (including Special Studies) for necessary engineering, design, legal, and consulting work to maintain protection and preservation of the District's water rights and to ensure compliance with various regulatory orders and requirements applicable to the District's rights and water supply portfolio, including but not limited to state-mandated water quality standards and fishery protections applicable to the Cachuma Project in accordance with State Water Resources Control Board Orders and the federal Endangered Species Act. The remaining net revenue balance of **\$2,179,313** will be used to fully fund the District's FY 2021/22 CIP program as detailed above in the amount of **\$1,837,439**. The remaining net revenue balance of **\$341,874** will be added to the District's Reserves.

RECOMMENDATION

That the Board of Trustees adopt Resolution No. 806 approving and adopting the FY 2021/22 Final Budget and requesting the collection of an assessment levy of \$875,000 for Fiscal Year 2021/22.