

MEMORANDUM

Date: May 23, 2017
From: General Manager
To: Authority Board
Via: Finance Committee
Personnel Committee
Subject: Fiscal Year 2018 Operating and Capital Budget

Introduction - It is my pleasure to forward the proposed Fiscal Year 2018 Operating and Capital Budget for your review. This budget proposes total operating expenses, including depreciation, of \$10,330,666. This represents a 4.82% increase (\$487,163) over Fiscal Year 2017. During the past year, inflation has increased the business costs by approximately 2.4%, while the number of customers being provided services has also increased:

	Jan 16	Jan 17	Increase	% Increase
Accounts	9601	9735	134	1.39%

Operating Revenues for Fiscal Year 2018 are anticipated to be \$10,187,780 approximately, 13.12% (\$1,181,778) above the level contained in the adjusted Fiscal Year 2017 Budget. This includes proposed rate increases as detailed below. Other highlights of this proposed Budget are as follows:

- 1. Rates, Fees and Charges** - This Budget incorporates an increase to the Water and Sewer Base Service Fees and the Water and Sewer Usage Fees of 7% to cover the increased operating costs and permanent borrowing for the construction loan for the water treatment plant as well as borrowing for planned CIP projects.
- 2. Personnel** – There is one new position being requested. A Cost of Living Adjustment of 2% is included in this Budget. Funding in the amount of \$10,000 is proposed and included to maintain the Spot Awards Program so that we may continue to recognize extraordinary service. Additionally, funding is included to support the Longevity Step Increase Program. The FY18 salary and benefits, including the Construction Department, are 6.25% over last year's salary and benefits.

As established by new legislation, any employee hired after January 1, 2014 is required to become a member of the Hybrid Retirement Plan (HRP). The HRP consist of two components, a Defined Benefit and a Defined Contribution. At a minimum, 1% of the employer and employee contribution must go into the Defined Contribution plan. The Virginia Retirement System (VRS) has not changed the employees' contribution rate. The employer's FY18 VRS contribution rate is 4.38% and FY18 VRS Life insurance rate is 1.32%. The

employee's FY18 contribution rate is 5%. The Employer's payment for the contribution rate is made based on the current rates. At present, the rates are not anticipated to increase. Finally, the legislation requires that new employees hired after January 1, 2014, be covered for short-term disability at a rate of 0.60%.

3. **Administration** – Administration expenses have increased 3.56% from the level contained in last year's adjusted budget. The increase is primarily due to a full year interest on refinanced loans and legal fees.
4. **Maintenance/Construction** – Maintenance/Construction has increased by 8.10% due to increases in Repairs & Maintenance and Supplies for Pipes, etc.
5. **Operations** - Operations costs have increased by approximately 7.64% from those contained in last year's adjusted budget, primarily due to increases in Water Treatment Facility, Analytical Services, Repairs & Maintenance, Utilities, Chemicals and Refuse Services.
6. **Repair and Replacement (R & R) and Depreciation** – (R&R is the repair or replacement of a broken, damaged, or failed device, equipment, or property to an acceptable operating usable condition or state.) The FY 2018 Budget contains R&R cash funding in the amount of \$750,00 for projects throughout our systems. It is important to note that our depreciation expense is \$3,000,000, the same as the prior years. This number has increased in the past 10 years as infrastructure and facility upgrades have been added to the Authority's assets. Although treated as a non-cash item, depreciation is directly related to the level of expenditures that will be necessary to fund the R&R program so that existing systems can be replaced as they reach the end of their useful lives.
7. **Capital Improvement Program (CIP)** – (CIP is a lengthy investment used to build, add, or improve on a project. It is any task that requires the use of significant capital, both financial and labor, to start and finish. Capital projects are defined by their large scale and large cost relative to other investments that involve less planning and resources.) The five-year CIP plan is intended to address issues in the water system. The Authority is cash funding \$750,000 of the CIP projects. The current cash funding is to cover well treatments and exploratory expenses. CIP includes projects for the New Baltimore, Bealeton and Marshall Service District including water sources (wells), a tank, and a water treatment facility. At the end of FY 2017, the Authority borrowed \$10,000,000 to cover the cost of these water projects.

By effective utilization and management of the nutrient waste load allocations assigned to our WWTPs under the Water Quality Management Planning Regulation, the Marshall and Remington WWTP compliance upgrade projects have been divided into two phases. Barring any significant changes to regulations, the phasing of these projects has allowed the deferral of significant levels of additional debt service (c. \$25M+) until sometime after FY2028.

We look forward to working with the Committees, as well as the full Board, as we proceed through the review and approval process for the FY2018 Budget.