

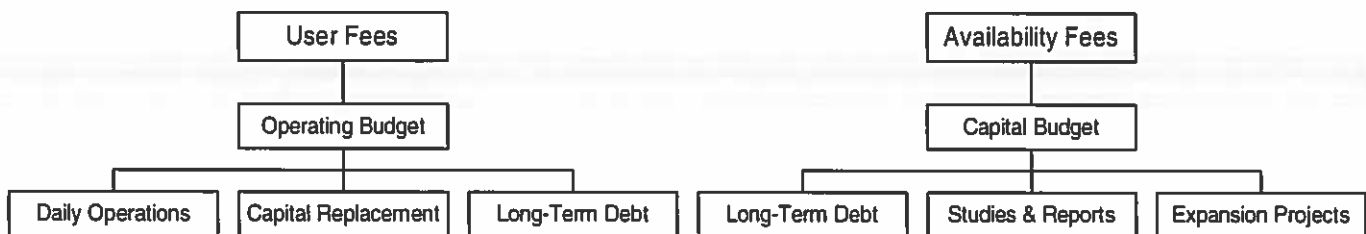
FY 2018 Budget Overview

The Fauquier County Water and Sanitation Authority's Budget is divided into Operating and Capital components, with each component intended to be financially self-sufficient. In this new format, the cash requirements of the Authority are presented with revenues that cover these cash needs. The cash requirement to be covered by the Authority includes Operation and Debt Service, Capital Improvement Program (CIP) and the Repair and Replacement plan (R&R). Also, the Authority understands the obligation of starting to restrict cash for capital needs in the future. The Authority will take advantage of the low interest rates and cover some of the projects with debt service. This will assist in meeting restricted cash balances. Within the context of slow to moderate growth, continued outside pressures and regulatory requirements, the User fees and Capital revenue will be used to meet cash obligations.

In ideal conditions, the Operating Budget receives most of its revenue from user charges. The typical activities charged to this Budget are related to providing service to the Authority's existing customers. Activities include operation, maintenance, administration and replacement of existing facilities and equipment.

Similarly, the Capital Budget receives its revenue from the collection of Water and Sewer Availability Fees. The activities charged to this Budget are related to the expansion of water and wastewater capacity to serve future and present customers. Activities include Capital construction projects, planning studies and long-term debt service on expansion projects.

The chart below illustrates the preferred flow of funds within the Operating and Capital Budgets:



There are times when growth does not pay for growth. In less than ideal conditions however, of necessity, revenues and necessary expenses are comingled so that essential services are provided and loan covenant obligations are met, whether funded by Operating or Capital Revenues. In the past, the Capital Revenues were not sufficient to cover debt service payments and assistance from the Operating Revenues was required. In effect, the Authority's

Water and Sewer Base Service and Usage Fees include a portion to cover the Capital and debt service obligations.

The FY18 Budget projects \$10,187,780 in Operating Revenues, representing an increase of 13.12% from the adjusted FY17 Budget, with an increase to the User Fees (7%) to offset rising costs related to a) increasing chemical, utilities, fuel expenses, b) inflation, c) increased Operating Costs from having to operate more advanced Chesapeake Bay compliant facilities, d) water treatment facilities, e) new debt service and f) the necessity of maintaining adequate Cash Reserves. Total operating expenses, including depreciation, are budgeted at \$10,330,666. This is an increase of approximately 4.82% from the adjusted FY17 Budget. Depreciation expense is projected at \$3,000,000 in FY18 is the same as FY17. The Depreciation Expense is 29% of the FY18 Operating Expenses.

Availability Fee Revenue projected for FY18 is \$779,324 for water and \$445,900 for sewer as the development market is projected to show positive growth.

The table below summarizes the projected FY18 Operating Budget:

	<i>FY 2017 (Adjusted)</i>	<i>FY 2018</i>
Revenues	\$ 9,006,002	\$10,187,780
Expenses	\$ 9,855,241	\$10,330,666
Net Income (Loss)	\$ (849,239)	\$ (142,887)
Depreciation	\$ 3,000,000	\$ 3,000,000
Income (Loss) Before Depreciation	\$ 2,150,761	\$ 2,857,113

Minimizing the budget variance requires aggressive budgeting and budget management by staff. This is particularly critical in the context of the requisite improvements of the Authority's WWTP's imposed by the partially funded mandates of the Chesapeake Bay Initiative. While Department Managers minimize the overall budget variance and retain most of the authority for budgeting of individual line items, they have focused effectively on cost containment and the identification of the fundamental expenses required for our provision of essential services to the Authority's customers. The Authority's Executive Management commends them for their efforts and will continue to focus on the reasonableness of their expenses and how the overall departmental budgets meet necessary budget limits.