

MEMORANDUM

Date: June 28, 2016
From: General Manager
To: Authority Board
Via: Finance Committee
Personnel Committee

Subject: Fiscal Year 2017 Operating and Capital Budget

Introduction - It is my pleasure to forward the proposed Fiscal Year 2017 Operating and Capital Budget for your review. This budget proposes total operating expenses, including depreciation, of \$9,821,707 which represents a 4.84% increase (\$453,629) as compared to Fiscal Year 2016. During the past year, inflation has increased the cost of doing business by approximately 1.5% while the number of customers being provided services has increased:

	Jan 15	Jan 16	Increase	% Increase
Accounts	9484	9601	117	1.23%

Operating Revenues for Fiscal Year 2017 are anticipated to be \$9,006,001 approximately, 13.69% (\$1,084,375) above the level contained in the adjusted Fiscal Year 2016 Budget, which 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 9.5% to cover the permanent borrowing for new sources and treatment facility of prior years and scheduled for FY 17. The Base Service Fees has an additional \$2.50 to fund fixed asset replacement cost.
- 2. Personnel** – There is one new position being requested and an update of the Engineer's position to full time with this Budget. 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 FY17 salary and benefits, including the Construction Department, are 6.58% over prior 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 FY17 VRS contribution rate is 4.38% and FY17 VRS Life insurance rate is 1.32%. The employee's FY17 contribution rate is 5%. The Employer's payment for

contribution rate is made based on the current rates. At this time, the rates are not anticipated to increase. Finally, the legislation requires that these new employees hired after January 1, 2014 also be covered for short-term disability. This rate is .60%.

3. **Administration** – Administration expenses have increased 3.67% from the level contained in last year's adjusted budget. The increase is primarily due to a full year interest on refinanced loans.
4. **Maintenance/Construction** – Maintenance/Construction has increased by 6.63% due to increase in repairs and maintenance and supplies for pipes.
5. **Operations** - Operations costs have increased by approximately 6.54% 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** – The FY 2017 Budget contains R&R cash funding in the amount of \$250,000 for projects throughout our systems. A new program is put in place to borrow \$500,000 a year as long as interest rates are relatively low. It is important to note that our depreciation expense is \$3,000,000, the same as the prior two 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 life in future years.
7. **Capital Improvement Program (CIP)** – The five year CIP plan is intended to address issues in the water system. The Authority is cash funding \$200,000 of the CIP projects. A new program is put in place to borrow \$500,000 a year as long as interest rates are relatively low. CIP includes projects for the New Baltimore, Bealeton and Marshall Service District including water sources (wells), a tank, and a water treatment facility. These projects are budgeted for \$8,000,000 and will require a loan for their funding.

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. Absent any significant changes to the 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, and the Board as a whole, as we proceed through the review and approval process for the FY2017 Budget.