

2018 Budget

Status & Overview

10/9/2017

Financial & Other Targets – 2018 Budget

- Debt Service Coverage Ratio = 1.20
- Incorporate rates from Suburban Water Rate Study & other models
- Capture initiatives that support overarching organizational goals

2018 Budget – What’s Included?

- Staff Additions – focus on “asset management” goal
 - 2 Maintenance Technicians – Suburban & City
 - 1 CMMS (*Computerized Maintenance Management System*) Manager – Shared
- Training – focus on “employee/leadership development” goal
 - Leadership Development program (kicked off in 2017)
 - Train-the-Trainer
 - Maintenance of certifications / tuition reimbursement levels
 - Reduction in travel expense / national conferences
- Various Monitoring Work – focus on “product quality” goal
 - Increased DEP monitoring requirements
 - Watershed monitoring program

2018 Budget – General Expense Increases

- Payroll – 3% wage increases by contract
- Health Insurance – 5% estimated increase
- General inflationary factors
- Legal expenses
- Water purchases (North Whitehall Division)

Reductions Required to Meet Financial Goals

- Nonessential training & travel
- Nonessential IT upgrades
- Contingencies for operational emergencies
- Equipment & supplies
- Grounds keeping & flood control project
- Reduced 2018 capex for City Division by \$1.8M to reduce borrowing requirements
 - Reduced water main replacement budgeted expense from \$4.8M to \$3.2M (removes contingency for mileage over the required 2 mile replacement)
 - Other minor adjustments on project timing

Current Draft - 2018 Budget

	Suburban Water	Suburban Wastewater	City Division
Operating Revenues	\$ 9,733,000	\$ 18,646,000	\$ 33,569,000
Operating Expenses	\$ 6,025,000	\$ 14,189,000	\$ 16,899,000
Expense Change from 2017 FC	6.9%	0.8%	1.1%*
Debt Service	\$ 3,744,000	\$ 690,000	\$ 13,878,000
Debt Service Coverage Ratio	1.22	8.07	1.24
Key Considerations:	Revenues include 1.5% growth and 4.5% rate increase. These figures will be adjusted following completion of water rate study.	Rates for Western Lehigh signatories to be adjusted after expenses are finalized; minor revenue adjustments expected.	Coverage in 2018 budget achieved through minimizing capex borrowing (lowering debt expense); however, cash available for capex expected to be significantly depleted.

* City Division expense increase of 1.1% achieved through significant cuts in maintenance / equipment budgets to accommodate required expense increases such as 3% wage and 5% insurance increases.

2018 Final Draft Budget – 10/23/2017

- Suburban Water Rate Study – review of results & scenarios
- 2018 Budget
- 2018-2022 Capital Plan
 - Includes additional adjustments made to 2018 City Division Capital Budget determined via budget process
 - Note: Also includes significant reductions made previously to City Division Capital Plan from preliminary draft plan to final draft plan to eliminate maintenance & repairs outlined in annual Arcadis report.

Beyond 2018

- Critical Planning Areas for “financial viability” goal
 - City Division
 - Long-term financial modeling – user friendly & flexible
 - Refinement of revenue & expense projections
 - Capital improvements planning – evaluating risk, requirements, timing, returns
 - Alternative financing options – capex & lease debt
 - Additional considerations / alternatives within lease structure
 - Rate modeling to address gaps
 - ***Possible revised 2018 budget proposal following completion of this work***
 - Proposal: Public Financial Management (PFM)
 - Develop financial model – \$95,000
 - Team approach for remaining tasks:
 - Shambaugh Utility Services – rate modeling
 - CH2M – operations & capex technical review
 - MWN – ongoing legal support for lease review & analysis

Beyond 2018

- Critical Planning Areas for “financial viability” goal
 - Suburban Water
 - Increasing expense trends for preventive maintenance
 - Incorporating pay-go capex into financial model
 - Rate modeling to address gaps
 - “Internal Services” Fund
 - Increasing expense trends
 - Allocation methods to all other funds

Discussion

10/23/2017 Meeting Time?

10/30/2017 “Extra” Budget Meeting?