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

<table>
<thead>
<tr>
<th></th>
<th>Suburban Water</th>
<th>Suburban Wastewater</th>
<th>City Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$ 9,733,000</td>
<td>$ 18,646,000</td>
<td>$ 33,569,000</td>
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<tr>
<td>Operating Expenses</td>
<td>$ 6,025,000</td>
<td>$ 14,189,000</td>
<td>$ 16,899,000</td>
</tr>
<tr>
<td>Expense Change from 2017 FC</td>
<td>6.9%</td>
<td>0.8%</td>
<td>1.1%*</td>
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<tr>
<td>Debt Service</td>
<td>$ 3,744,000</td>
<td>$ 690,000</td>
<td>$ 13,878,000</td>
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<tr>
<td>Debt Service Coverage Ratio</td>
<td>1.22</td>
<td>8.07</td>
<td>1.24</td>
</tr>
</tbody>
</table>

**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?