

2017 Year to Date 2018 Budget Process and Overview

Before we begin to review the current year to date, I want to talk briefly about our ending position of 2016. Revenues were off, due to the continued decline in water use and record rainfall in the region, by roughly \$2.5 M, compared to our projections. This trend was recognized early in the year and spending controls were put into place continued throughout the year. Some of our costs were well below budget due to the low water production and we experienced favorable pricing for fuel and energy. All of this resulted in us overcoming the shortfall and we ended up with a small surplus at the end of 2016. The resulting available cash balance will be considered in the financing for the upcoming 2018 SPRWS budget.

2017 Year to Date

Revenue

We have started the year with water sales for the first four months virtually equal to 2016. We reduced our budgeted consumption for the year down to an amount equal to 2016 during our budget preparation last year. Due to that action, I am cautiously optimistic that we will produce and sell water to our customers at an amount close to budget.

Expenses

We have once again had a mild winter with normal to below normal frost depth. That has contributed to a good season of emergency repairs which saves us on our labor and overtime expenses. We have begun our summer construction and are well underway with many of our capital improvements. We are continuing to focus and emphasize our routine maintenance in our Distribution system including flushing and valve exercising.

2017 budget for Large Capital Projects – Revenue Funded

- Water main replacement - \$8.6 Million (Just over 8.5 miles)
- Hydrant and service replacement and installation - \$5.2 Million (this includes an increase in lead water service replacement of \$1.3 Million to a total of \$3.2 Million)
- Production improvements – 1.5 Million
- Equipment and Small Cap - \$ 1.8 Million

Total of \$17.1 Million of Revenue Funded Capital Projects in 2017.

Capital Projects to be Completed in 2017 – Debt Funded using MNPFA Funds

- \$7.575 Million for electrical upgrades and McCarrons pump improvements (this was part of the 2016 budget and will be constructed this year)

Preview of 2018 Budget Process

Projection of billed water consumption in 2018

- We will not be proposing a change in this amount for 2018.

Water Service Base Fee

- We are not proposing a change in our water service base fee for retail customers in 2018. We will be conducting a cost of service study for our wholesale customers in 2017 which may include a change in their base fee. We did not alter their base fee as we did for our retail customers and we will propose to change the wholesale billing structure to mirror the 18-20% of the total revenue collected via the base fees. Any changes in those fees will be proposed along with our 2018 budget.

Funding for Replacement of Buried and Other Infrastructure

- In 2018, we will propose an increase in our Water Main Surcharge from \$0.10 per 748 gallons to \$0.20. This will provide an increase of \$1.3 Million for water main replacement. Costs are increasing for this work due to several factors, so with this increase, we will be able to replace approximately another 1.3 miles of water main. This increased work will result in the need for additional design and inspection staff in our engineering group.

In 2017 we reallocated some capital dollars left from some completed or cancelled projects to increase our lead water service budget. Depending on the new rules due out this year, we may need to have additional funding available for this work in future years as well.

Debt Funded Capital Projects using MNPFA or Revenue Bonds

- We will be including a small number of debt funded projects in 2018. These may include conduit repair and the predesign for the much anticipated water treatment plant improvements.
- We will be updating the 10-year capital plan with new estimates for some of the future large capital projects.

Expenses

- We are anticipating an increase in wages and fringe benefits in accordance with the upcoming contract changes. Negotiations begin later this year so the amount will remain unclear until that work by Labor Relations is complete.
- We plan to keep our materials, supplies and services budget for 2018 flat with 2017, with the possible exception of a small adjustment for inflation.

Preparation is well underway by SPRWS staff with the initial Board Presentation at your July Board Meeting