

2015 Year to Date

2016 Budget Process and Overview

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Revenue

We have started the year with water sales very similar to 2014. We should benefit from the water service base fee that has shown the ability to stabilize our revenue in times of consumption fluctuation.

Expenses

2015 Budget includes increased spending for some of our major expenses. The contracts that are in place for chemicals do show small increases. Fuel prices are stable. Labor costs are tracking considerably lower than 2014 at this point. This is due to the 2014 numbers being skewed by the OT necessary for thawing frozen services. We expect our labor for 2015 to be near our budgeted amount as we have filled some vacant positions and have hired up to our summer complement of seasonal employees.

Large Capital Projects – Revenue Funded

- Water main replacement - \$8.0 Million
- Hydrant and Service Replacement and Installation - \$3.125 Million
- Water Tank Construction – \$2.5 Million
- Equipment and Small Cap - \$ 1.2 Million

Total of \$14.865 Million of Revenue Funded Capital Projects in 2015.

Capital Projects to be Completed in 2014 – Debt Funded

- \$2.225 Million for a small Chemical System and Storage Improvements

Preview of 2016 Budget Process

Projection of billed water consumption in 2016

- I am proposing to leave the proposed water consumption flat for 2016 vs. 2015. Even though we saw consumption levels in 2014 quite low and needed to make subsequent spending reductions in several areas, the reduced amount we built into the 2015 budget is equal to the average consumption over our past 5 completed fiscal years. We will continue to monitor this important issue moving forward.

Water Service Base Fee

- We will propose an increase in the amount of the base fee for 2016. We will propose a \$1 per month increase to small residential customers and commiserate increases in customers with the larger meter sizes. We currently collect approximately 13% of our revenue through the base fee and this will increase that to roughly 16%. The recommendation of our financial consultant was to get to a 20% level in the long term.

Funding for Replacement of Buried and Other Infrastructure

- In 2015, we have begun collecting the water main replacement surcharge that has increased our investment in buried infrastructure. We will not recommend an adjustment in 2016 for this program. We are continuing to evaluate appropriate replacement techniques as street reconstruction practices in Saint Paul and our suburban service area continue to evolve.

Debt Funded Capital Projects

- We will be including approximately \$8 Million in debt funded projects in 2016. These will include a major electrical upgrade at our McCarrons campus and some improvement to our High and Low Service Pumps at McCarrons.

Expenses

- We are anticipating an increase in wages and fringe benefits in accordance with the upcoming contract changes.
- We will plan for a slight increase in materials, supplies and services budget for 2016 accounting for inflation.
- We anticipate a small decrease in Central Services and the continued payment for the COMET ERP, the I-Net and the Enterprise Technology Initiative by the City of Saint Paul. This is largely due to needing to pay two years of I-Net expenses in 2015 and returning to an annual payment for this in 2016.

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