

Boothbay Region Water District Fiscal Year 2017 Budget

Executive Summary

GENERAL

In formulating the Boothbay Region Water District 2016 Budget, all normal operational activities have been funded including all salaries and related benefits, as negotiated January 2016 with Teamsters Local #340. The following summary is an outline and analysis of the 2016 budget as related to actual spending and the activities and goals of the district proposed by the management for fiscal year (FY) 2017.

I GENERAL DISCUSSION & ANALYSIS OF 2015 BUDGET AS RELATED TO FY 2015 ACTUAL

A. REVENUE

Early in 2016 the Boothbay region began to experience drought conditions. Even though droughts are generally bad for crops and water reserves, the byproduct is an abundance of warm, sunny summer days. Coupled with the on-going drought the national and state economy was thriving, allowing tourists more discretionary income, which translated to a very successful and hectic tourist season.

2016 was an excellent year for revenue, setting an all-time high at \$3,367,520.83. Much of the higher than expected earnings were derived by state, federal and private grant income totaling \$217,988.96 with an additional \$100,000.00 in revenue from a short-term line of credit from the First National Bank of Damariscotta and transfer from cash reserves of \$388,661.13.

In addition to the contributions to total revenue listed above, the economy seems to have been strong and the weather warmer than usual and extremely dry, creating the perfect conditions for a strong tourist season. In October, the district became the first non-profit water utility to take advantage of the *Infrastructure Surcharge* allowed by the Maine Public Utilities Commission (PUC) which was enacted just before seasonal overage billing. With only one quarter of the year the district realized an addition \$34,429.65 in revenue slated solely for the cost of newly constructed infrastructure.

The district's commitment to meter upgrades continues to pay off in that water that was previously not being accounted for is now, reducing unaccounted for water and increasing revenue. Below is a detailed discussion pertaining to Revenue Accounting Line Items where major revenue sources actual realized numbers deviated plus or minus 5% of budget forecast.

- 131 CASH ACCOUNTS – During 2016 The districts cash accounts were depleted from \$457,820.00 to an ending balance of \$192,707.26 or a reduction of 58%. Much of this decline was due to an overaggressive capital infrastructure replacement season and the costs associated with installing infrastructure. More detailed discussion of this situation is discussed in Section I., B., 5.
- 461.40 through 461.45 METERED SALES – GOVERNMENT AGENCIES – These accounts exceeded expectations across the board with the district realizing 35% more revenue than expected. Most of this usage is tied to the tourist industry which from all accounts performed above average in 2016.
- 414.00 JOBBING REVENUE - Coupled with the strong tourist season the construction industry was also experiencing a strong year with new construction or major rehabilitation to properties experienced district wide. The district added over 40 new customers in 2016 which required billable hours by district staff to complete. The performance of this accounting line item exceeded 50% more than expected.
- MISCELLANEOUS - This accounting category added 600% more revenue to the district than expected. Jobbing Revenue and Establishment of Service showed marked improvements due directly to a strong economy and new construction. As will be dealt with in IA EXPENSES, the district to a large extent overextended itself with regard to capital infrastructure investment requiring a \$388,661.13 depletion of the district's cash reserves and a year ending drawdown of \$100,000.00 of a line-of-credit held by the First National Bank of Damariscotta. However, during the year, the district received an additional \$217,988.96 in federal, state and private grants to support infrastructure installation and land acquisition, all of which contributed to the inflation of this accounting category.
 - o 416.00 WISC Revenue - On 27 October 2016 the district became the first non-profit water utility in Maine to take advantage of the water infrastructure surcharge (WISC) authority allowing the district to add an infrastructure surcharge at a rate of \$0.29 per 100 cu/ft. With only one quarter on the books the program generated \$34,429.65 in added revenue.

B. EXPENSES

Overall expenses for the majority of the accounting categories were kept either at, near or below the 2016 budget forecast. However, the district took on many capital projects and acquisitions which dramatically exceeded budget expectations, created severe cash flow issues and has changed scheduling times well into the future of the districts capital improvement plan. The following narrative will discuss the overall performance of each of the accounting categories along with detailed discussion of subsets that ever severely under or over performed. These categories include:

- Labor Expense;
 - Power;
 - Materials & Supplies;
 - Chemicals
 - M&S Transmission & Distribution
 - Contractual Services
 - Expenses
 - Capital Improvement Projects to Equity
 - Bonds Principal Expense to Equity
 - Sinking & Reserve Fund Contributions
1. **Labor Expense** - Overall labor remained well within budget with the 2016 performance, inclusive of all benefits, ending the year 7.3% below what was forecast. This included two, large capital improvement projects, a myriad of smaller capital projects as well as meeting all of the operational requirements necessary to provide our high-quality product to the public. Overall the good performance here can be attributed to good mid-level management and a seasoned, professional, properly equipped and efficient workforce.
 2. **Power** – Despite the 30% increase in raw water production and along with severe drought conditions requiring more withdrawal from Knickerbocker Lake where the marginal cost of water is higher due to multiple pumping stages, with an efficient eye toward pump and equipment performance, manipulating storage to the districts advantage and maintaining strict maintenance schedules the district demand for power came in 17% below predicted usage.
 3. **Materials and Supplies** - With the improved economy and the increased demand of more tourists on the system overall, the district exceeded the budget expectation for materials and supplies by 12%. Two subsets within this budgetary category exceeded spending projections, those being *Chemicals* and *M&S Transmission & Distribution*.
 - a. **Chemicals** - Treatment chemicals ended the year approximately 24% over 2016 budget estimates. Much of this overage was a simple cause and effect due to 30% more summer demand for water due to the outstanding tourist season. In addition, because of persistent drought conditions, the district used more of its annual allocation for water from Knickerbocker Lake, withdrawing near its permit withdrawal limit to meet demand and preserve Adams Pond at a higher level going into the winter where Adams Pond is the only drinking water source for the Boothbay region. Knickerbocker Lake water quality is much less than that of Adams Pond due to development around the lake and within its watershed.

Consequently, the water treated from Knickerbocker Lake requires more chemicals to treat to the high level of purity the district demands.

- b. M&S Transmission & Distribution – This accounting subset consists of materials for distribution operations such as loam, seed and asphalt; revolving tool maintenance and replacement; safety equipment; expendables including oil, wax, wash etc.; materials for distribution maintenance, mains and services; maintenance and the replacement of fire hydrants; water meters; Cross connection control materials and supplies; materials for standpipe maintenance; and general distribution maintenance supplies. As discussed earlier, the 2016 economy in the Boothbay peninsula was very well performing. Much of the cost overruns were the result of increased paving needs which were, in part to proactive maintenance ahead of the Maine DOT paving project for those small improvements requiring road openings and the heavy construction demand relating back to a thriving economy.

Closely related were the sharp increase in housing and services. Over 40 new or conversion homes were added to the distribution system in 2016, all requiring materials for installation whose cost was subsequently retrieved from the new customer via the jobbing or new service installation revenue accounts. In a hot economy, these budget line items are the first to be exceeded and management looks at these cost overruns as justifiable.

4. Contractual Services – This budget category overall was under used during 2016 in that, overall the district expended only 88% of the 2016 budget estimate. The district underutilized almost all sub-categories under budget with the exception of 635.20 Generator Maintenance Contract; & 635.71 Software Licenses. Both subcategories overran their allotted budget numbers because in preparing the 2016 budget management failed to fully investigate the true cost of each either because costs in previous budgets were buried in other subcategories or potential maintenance was never calculated into the subcategory.
5. Expenses – Overall this accounting category severely underestimated the amount of resources that would be consumed during 2016. Vehicles and Equipment; Insurance - Vehicles; Insurance – *General Liability*; *Insurance - Workers Compensation*; *Advertising & Regulatory Expenses*; and *Miscellaneous Expenses* were all under budget or around budget, with most overruns the result of new construction as it relates to a hot economy; an abnormally high number of road opening permits on state roads requiring the district to funnel those permitting costs as a regulatory expense with reimbursement from the customer recouped at projects end, for example. However, severe overruns were experienced with the CAPITAL IMPROVEMENT PROJECTS CONTRIBUTION TO EQUITY OUT OF CASH & BONDS – PRINCIPAL TO EQUITY accounting categories.
 - a. CAPITAL IMPROVEMENT PROJECTS CONTRIBUTION TO EQUITY OUT OF CASH & BONDS – The district trustees authorized expenditure of funding for three unfunded projects during 2016 which included 105.17 Hamrin Property Acquisition; 105.18 Southport Consolidation Project; & 105.19 North Adams Pond Fire Access Project. All three projects to one degree or another demanded that all cash resources of the district be brought to bear in order to complete the prescribed objectives.

- 105.17 Hamrin Property Acquisition – The Hamrin property included 68 acres of critical watershed property of Adams Pond which prior to the 2016 budget had been an objective of the trustees to acquire. However, over the previous two years’ negotiations with the former land owner had been unsuccessful until staff were successful in acquiring a sizable habitat rehabilitation grant from the Natural Resources Council of Maine (NRCM) making the acquisition possible. The total unfunded outlay of the district was \$161,352.65 from the district’s land acquisition account with 2016 earnings from the NRCM grant equaling \$72,500.00 with a small final payment to the district expected in early 2017.
 - 105.18 Southport Consolidation Project - This project was designed to tie the Southport Central School into the district’s newly built distribution system, because of the many contaminants in the schools drinking supply, most notably elevated lead levels, rendering the schools water supply non-potable. Through the urging of the Maine Department of Health and Human Services, Drinking Water Program’s (DWP) urging, and their commitment of a \$100,000.00 system consolidation grant, the trustees authorized a non-funded expenditure of resources to complete the 1,400-ft. installation of 12” high density polyethylene (HDPE) water main and permanent connection to the school. With contracting lessons learned, in that the district paid a premium for this stretch of water main, when the smoke cleared the district had outlaid a total of \$315,219.42, with the majority of funding from the district’s capital reserve fund and the remainder from the grant described above. The project depleted the capital reserve account and other reserve funding. However, let it be clear because of the serious need for a water main extension and the significant portion of funding provided by Maine the project was a priority with the school children of Southport now reaping the benefits of clean drinking water.
 - 105.19 North Adams Pond Fire Access Project. - This project was conducted at the request of the regions fire chiefs to provide a clean, environmentally sound, secure and efficient drafting station along the north edge of Adams Pond for fire protection along the Dover Road in Boothbay. The project was ordered by the trustees and completed during the year to the satisfaction of the regions fire chiefs. The project, once completed allows for the efficient loading of fire tanker trucks from the location while allowing traffic flow on Dover Road and Adams Pond Road as well as improving access to the Adams Pond Dam, making the work area much safer. The project is functional but incomplete with paving scheduled in 2017. The total cost, funded completely by district cash reserves totaled \$25,820.00 in 2016.
- b. **BONDS – PRINCIPAL TO EQUITY** – For the most part all of the line items, that being the principal payments for the district’s capital maintenance debt service were fully known in the 2016 budget with all principal payments paid in full within budget. However, due largely to the previously described cost overruns with the 105 accounts, the district fell into a severe cash flow situation in late September requiring massive infusions of funding from the First National Bank of Damaris cotta through short term line of credit funding. To meet the funding needs for the district during the month of October, management incurred an additional \$275,000.00 in short term debt of which \$175,000.00 has already been paid back; creating the overall cost overrun within this accounting category. The additional \$100,000.00 will be paid back within the first two quarters of 2017 and are programed in that budget.

II ANALYSIS OF 2017 BUDGET

A. Budget Discussion

Currently the cash reserves of the district are at an all-time low in relative value. The aggressiveness of 2016 with regard to capital improvement for the public good has left the district in a position wherein a respite from capital improvement projects, other than those completed during normal work evolutions, which are not proposed. Instead management is proposing the trustees allow 2017 to be a period in which the district attempts to “restock the financial shelves” building up capital reserves to meet RD funding requirements and infuse ample resources within the district's capital infrastructure account and land acquisition account.

Even with these objectives in mind the budget for 2017 remains tight with much of the capital reserves to be infused through efficiency within the execution of the budget. In short this budget is derived as a worst-case scenario with revenue underestimated and expenses overestimated. That said, a repeat in economic and weather conditions as experienced in 2016 would go a long way to reloading the district to pick up its capital improvement program in early 2018 and begin making headway there.

In short the 2017 can be best described as a maintenance budget. Staff is working on efficiencies within the treatment and distribution systems with an eye on improving efficiency and saving capital costs. In addition, because of the past decades rather aggressive capital improvement activities, 2017 will give the treatment and distribution staff ample opportunity to create and perfect real maintenance programs which will include a valve exercising program, unidirectional flushing program of the year-round system, extended study as well as political involvement with all things natural resources and limited replacement of hardware, including replacement of aging tools and vehicles.

B. Budget Objectives

The following section is a listing, followed by a detailed narrative describing management's proposed objectives for 2017. Listed below, in addition to normal operations designed to improve the fiscal management and rate stability of the district, maintain solid capital maintenance of district assets or improve workers' safety and/or ergonomic conditions while improving public safety. Management recommends the Boothbay Region Water District pursue the following 2017 objectives:

- Complete and additional 3% WISC filing in September to recapture already approved infrastructure improvement cost/debt service;
- Increase funding for legal representation due to ongoing litigation with the Coastal Maine Botanical Gardens over pollution threats to Knickerbocker Lake;
- Replace one vehicle;
- Fund *Phase III Water Meter Replacement Project*;
- Concentrate on total system maintenance;
- Replace aging minor tools and equipment as necessary;
- Provide funding for current summer intern;
- Evaluate need for infrastructure upgrade within the Boothbay Common in conjunction with the roundabout installation;
- Fund budget for day to day items to maintain extraordinary district service; and

- Participate meaningfully with the town of Boothbay with the redraft of municipal ordinances and provide legal and technical resources with the objective of protecting Adams Pond and Knickerbocker Lake; and
 - Prepare for the proposal of the 2018 Capital Improvement Project.
1. **WISC Filing**– Since the last rate filing of the district, calculated in 2010 and implemented during the first quarter of 2011 in a two stage increase, the district has completed the following:
- o Rehabilitation of Commercial Street in Boothbay Harbor;
 - o Rehabilitation of Sherman Street, Gilead Street and Paine Road water mains;
 - o Completion of looping projects in Highland Park, Campbell Street & High Street in Boothbay Harbor;
 - o Overhaul of the Pinkham standpipe, inside and out, along with the installation of a mixer;
 - o Replacement of the East Boothbay water main in the wake of the Washburn and Doughty fire;
 - o Merger with the Southport Water System;
 - o Installation of over 12,000 feet of 12” water main in Southport creating a fire protection spine for that community; and
 - o The construction of the Thompson Family Standpipe

The above listed projects have incurred several million dollars of debt service or have depleted capital improvement reserves as Paygo projects which have now manifested itself in cash flow shortcomings as a result of debt service. The help provided in easing cash flow issues with regard to capital improvement debt service from the WISC program is essential for lengthening the time needed between formal rate cases and lessen the sticker shock for the rate payers once the inevitable rate case is developed in the future, estimated to need to happen in 2018 or 2019.

2. **Increase funding for legal representation due to ongoing litigation with the Coastal Maine Botanical Gardens (CMBG) over pollution threats to Knickerbocker Lake** – As an ongoing situation, the district is now playing out the string, from a legal perspective with regard to the half-assed project now underway at the CMBG which will likely increase pollutant loading within Knickerbocker Lake, a lake that is already classified “most at risk from development” by the DEP. This particular skirmish can take on a life of its own and will be at the call of the trustees. With that said, I have increased the funding for general legal assistance by a factor of 5-times within the budget. Unfortunately, until more professional and definitive ordinances are instituted by the town of Boothbay, coupled with a warm economy making general construction more attractive within the district’s watersheds, the need for legal representation on a local level is very probable and the district must be prepared to operate within this environment.

3. **Replacement of Two District Vehicles** – Currently there is a need to replace two service vehicles which include the 2008 Ford 4 WD Lift gate vehicle and the 2007 Chevrolet 4WD service vehicle. I believe even though the need is very real, from a safety perspective the lift gate vehicle needs to be replaced. Currently the truck on which the lift gate is installed is not up to the task in that it is ¾-ton vehicle and really should be a 1-ton. Even though the 2007 utility vehicle is in rough shape, management is not proposing its replacement until 2018 or it can be purchased within the leasing budgeted number. This proposal calls for the following

2018 Chevrolet 3500 HD with Body & Liftgate	75,000.00
with an option	and/or
2018 Chevrolet 2500 HD with Body	<u>\$50,000.00</u>
	<u>\$125,000.00</u>

4. **Fund Phase III Water Meter Upgrade** – This is a continuation of the ongoing five-year plan to upgrade all existing residential meters to new I-Pearl meters because of increased accuracy and to meet US EPA mandates. \$80,000.00 is allocated for this effort under CAPITAL IMPROVEMENT PROJECT CONTRIBUTIONS TO EQUITY OUT OF CASH, 105.16 Meter Upgrades. The long-term goal of this project is to eventually convert to monthly billing in an effort to even out the peaks and valleys of cash flow and provide a more even cash distribution to the district on a monthly basis.
5. **Total System Maintenance** – This budget calls for the district to concentrate on system maintenance programs with some admittedly not up to district standards and philosophy. These programs include a regular valve maintenance program as well as a fire hydrant flushing/maintenance program being perfected. Additionally, the treatment staff is concentrating on the development of standard operating procedures for the operation of the treatment plant and is concentrating on cross-training more junior operators in the proper operation of the plant. Lastly, the district will concentrate on a new, more efficient natural resources sampling plan to allow district personnel to really hone in on our raw water quality, quantity and isolate threats for later solution.
6. **Minor Tool Upgrade and Replacement** - Much of the minor tools owned by the district are well worn and need either maintenance or outright replacement. The budget allows the distribution foreman ample discretion to purchase and upgrade new tool systems after consultation of the general manager.
7. **Provide funding for the Current Summer Intern** - The NRPM recruited our current summer intern who is entering her junior year as an environmental major at the College of the Atlantic. The summer intern contributed greatly during the 2016 season, providing important fieldwork with the districts natural resource inventory as well as performing very high level documentation and revision of district environmental policies and procedures. Management believes that extending this intern through 2017 would be of very high value to the district and recommends approval.

8. **Evaluate Need for Infrastructure Upgrade Within the Boothbay Common in Conjunction with the Roundabout Installation** – There are two projects within this DOT work zone that are what management refers to as “nice to do” projects. The first project includes the rerouting of the existing 12” water main which will bisect the new roundabout once built. This is not a requirement of the DOT. The estimated cost for this project is \$129,000.00. Coupled with the project just described the board may consider a project to upgrade the high-pressure side transmission main from the intersection of Route 27 and Chapel Street to the end of the work zone along Corey Lane to 12” HDPE water main, for an estimated cost still under review by Dirigo Engineering. Even though management is not proposing capital improvement projects in the 2017 Budget, and recommends that these projects not be completed, it proposes the board consider these because once the roundabout project is completed by DOT there will be a five-year moratorium for construction within this zone. One scenario that comes to mind is an urgent need for fire protection flows from the high-pressure side of the distribution system for an inferior non-profit along Barters Island Road within the five-year moratorium period.
9. **Participate Meaningfully with the Town of Boothbay with the Redraft of Municipal Ordinances and Provide Legal and Technical Resources with the Objective of Protecting Adams Pond and Knickerbocker Lake** - This effort is underway currently with the NRPM an active participant in the process. It is imperative the board support this effort in that protecting our natural resources, in particular our raw water reserves, is the key to the districts viability and survival. Nefarious organizations such as the CMBG exist within the region and will take advantage of weak ordinances for development applications which will ultimately degrade the districts raw water supply of which management believes is completely unacceptable.
10. **Prepare for the Proposal of the 2018 Capital Improvement Project** – The current storage capabilities for the district were designed to meet the needs of the district in 1994. At that time the district customer base was one-half of what it is today, much less restrictive rules requiring no specialized equipment and a staff that did not work nearly to the production level of the current employees. To put it simply, the district has outgrown its current work spaces. As a budget proposal, management would like to complete a design of an additional garage within the district’s treatment plant campus, have bid documents drawn up, deliver any and all permits that may be needed, search out and secure any grant funding that may be available and begin the local permitting process during FY-2017 in preparation for the board to consider construction in 2018 as that year’s capital improvement project. Wright-Pierce began concept work on this project in 2014 but as of late, management has lost all confidence in Wright-Pierce in that their costs are too great, they lack any sensitivity with regard to the district’s raw water reserves putting all of their work into question, and possess a lack of pragmatic vision, also known as “common sense”. Instead management has turned over engineering services for this important project to Dirigo Engineering who is better equipped to deliver a superior product for the least possible engineering and construction costs.

III CONCLUSION

The 2017 Budget is based on very tight accounting numbers advocating a 5.2% funding increase to manage district labor and infrastructure totaling expected income of \$2,707,744.00

This proposed budget adequately meets all of the district's obligations as directed by the board. Most importantly this budget is designed to manage debt for rate stability.

Respectfully Submitted,

Jonathan E. Ziegler
Manager