

Boothbay Region Water District Fiscal Year 2019 Budget

Executive Summary

GENERAL

It is managements pleasure to present to the board of trustees the following Boothbay Region Water District 2019 Budget proposal. In formulating the Boothbay Region Water District 2016 Budget, all normal operational activities have been funded including all salaries and related benefits, as negotiated December 2017 with Teamsters Local #340. The following summary is an outline and analysis of the 2018 budget as related to actual spending and the activities and goals of the district proposed by the management for fiscal year (FY) 2018.

I GENERAL DISCUSSION & ANALYSIS OF 2018 BUDGET AS RELATED TO FY 2018 ACTUAL

A. REVENUE -

Overall revenue for 2018 was well within budget. Overall all 461 & 462 ended the year +/- 2.0% of what was expected for sales, which in the 2018 Budget process were optimistic hoping the tourist industry would show strong again for 2019, which it did. Where the district outpaced predictions were in Account 471.30 where the district once again heavily borrowed on a short-term line-of-credit showing on paper an overall increase of slightly over 12% of total revenue retained by the district.

B. EXPENSES

Overall expenses ended the year 11% greater than expected. However, the primary cause for this cost overrun was added short-term debt absorbed in the third quarter of 2018 and an ability of the district to clear almost twice the debt originally intended for 2018. Additionally, the district experienced some minor cost overruns with regard to specific accounting categories with the majority of categories either coming in at or below budget. A detailed discussion with regard to under performance of outlying accounting classifications is discussed below. These categories include:

1. **WAGES & BENEFITS** – Even though a few specific line items drastically either over or under-performed as compared to what was expected, taken on a whole, Wages and Benefits ended 2018 an estimated 3% above what was predicted in the 2018 budget. There were many unforeseen circumstances when comparing performance to what was expected, chief among these was the retirement of the outgoing Customer Service Representative, the need for the district to carry one extra full-time equivalent for the fourth quarter of 2018, and greater than expected deferred compensation paid out during 2018 due to personnel with medical conditions.

- a. WAGES - TRANSMISSION & DISTRIBUTION OPERATIONS - This accounting classification experienced a 23% cost overrun. The distribution division draws labor funds additionally through WAGES - TRANSMISSION & DISTRIBUTION MAINTENANCE which, as an accounting category, performed 22% below what was predicted. Overall the distribution division ended the year slightly over 13% over budget. Much of this overrun was due to the inclusion of an unbudgeted FTE late in the year.
- b. EMPLOYEE PENSION AND BENEFITS - This line item overran 11% with the majority of the overrun linked to unforeseen deferred compensation and an overrun with regard to health insurance due to the addition of a new FTE.
- c. M&S SOURCE OF SUPPLY - This accounting classification overran its budget by 52%. However, the lions share of the overrun was attributed to line item 620.10 - M&S - Source of Supply - Ops (Natural Resources) wherein several capital improvements and acquisitions were made to support the Natural Resources program with the cost of these reimbursed to the district through grants already secured.
- d. ADVERTISING AND REGULATORY EXPENSE - The district overran the 667.00 Regulatory Expense by nearly 30% with this due to the regulatory fee increases by the Maine Public Advocate and the Maine Public Utilities Commission (PUC), coupled with increased licensing fees due to a policy change encouraging district personnel to pursue higher licensing.
- e. BONDS - PRINCIPAL EXPENSE TO EQUITY - The cost overrun experienced within this large accounting classification was primarily due to short-term borrowing to meet operational expense. This is not expected in 2019.

II ANALYSIS OF 2019 BUDGET

A. Budget Discussion

In January 2018 the board of trustees, seeing the insurmountable cashflow problems the district was experiencing ordered a rate case to take effect 1 January 2019. The rate case was completed and approved by the Maine PUC in 2018. The budget is formulated to reflect this change in financial position while carrying over \$300,000.00 accrued in 2018 in short-term debt which is a priority to clear up. That said, this budget proposal is designed to meet operational and capital improvement needs of the district with a rather busy year planned.

B. Budget Objectives

The following section is a listing, followed by a detailed narrative describing managements proposed objectives for 2019. Management recommends the Boothbay Region Water District pursue the following 2019 objectives:

- Repay the outstanding \$300,000.00 owed to *The First* in short-term debt within the first and second quarter of 2019;
- Build reserves so that the district can meet all of its financial commitments without further need of short term financing;
- Refund USDA Sinking funds to proper levels by 31 December 2019.

- Rebuild Capital Expenditure and Land Acquisition Accounts;
 - Be prepared to purchase land or land rights as they become available;
 - Initiate the PayGo project *Logan Road Water Main Replacement Project* in September 2019;
 - Purchase one (1) service vehicle;
 - Concentrate on total system maintenance;
 - Replace aging tools and equipment as necessary;
 - Reinitiate the summer intern program;
 - 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
1. **Repay Existing Line of Credit**– The current balance of principal owed is \$300,000.00 which will require repayment by May 2019. It is the intention of management to have this debt cleared by 1 March 2019 with an eye on moving forward from there.
 2. **Meet all Financial Commitments Without the Need of Short-Term Financing** – This goal is achievable and of primary focus.
 3. **USDA Sinking Funds** – 2018 marked for the second year in a row the sinking funds, required by law were underfunded for the three outstanding Rural Development (RD) loans currently held by the district. However, in 2018 not only were these funds underfunded but they were used by management to pay operational expenses. The requirement for sinking funds is an arcane whim of the Congress but nonetheless is the law. The district is to have these funds restored to correct levels on or about 31 December 2019.
 4. **Rebuild Capital Expenditure and Land Acquisition Accounts** - As of 1 January 2019 these two accounts have a combined total of \$15.85. As budgeted, management believes it is achievable to boost that level of funding to approximately \$200,000.00 combined which, however not ideal, will mark a good direction and set the district up well for 2020.
 5. **Logan Road Water Main Replacement Project** – This is the first PayGo project listed in the CI plan. This Boothbay Harbor Project will consist of the installation of approximately 600 ft. of 8” high density polyethylene (HDPE), and upgrading all associated appurtenances, replacing the existing undersized, mix and match water main currently service. This project was identified for main breaks, lack of proper flushing access and shallow depth of bury of existing water main inadequate for freeze protection. The total cost to the rate payers is estimated to be \$100,000.00.
 6. **Replacement of One (1) District Vehicle** – Currently there is budgeted one replacement vehicle. The proposed cost is as follows:

2020 Chevrolet 2500 HD with Body	<u>\$50,000.00</u>
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7. **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.
8. **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.
9. **Reinitiate One (1) Summer Internship**— This budget calls for one (1) seasonal summer intern to be assigned to the NRPM to assist her with the field data and operations within her program. Likewise, as time allows the intern will be shared with the DD for specific taskings as needed. This has been a success the three years we had an intern with the term of employment no more than four (4) months.
10. **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.

III CONCLUSION

The 2019 Budget is correct in funding with modest objectives to put the district back on the right financial path.

This proposed budget can meet all of the district's obligations but with little room for error.

Respectfully Submitted,

Jonathan E. Ziegler
General Manager