

2015 Budget Kickoff

Presentation to the Board of Commissioners

September 25, 2014



Budget Schedule

1. **Sep 25th** – *Where have we been?* – 2013-14 budget to actual – focus on what the usage forecast should be
2. **Oct 7th** – Capital expenditure history and six year forecast
3. **Oct 21th** – Operating costs by Object (*type*)
4. **Nov 4th** – Operating costs by Function (*purpose*)
5. **Nov 18th** – *Where are we going?* – 2015 Budget, Recommended Rate Increase, and Financial Forecast – *budget books delivered*
6. **Dec 2nd** – Response to questions – Budget passed.



2013 Budget to Actual Comparisons

MAINTENANCE (OPERATING) FUND CASH	2013 BUDGET	2013 ACTUAL	2013 Bud/Act DIFFERENCE
Beginning Balance of Maint (Operating) Fund Cash	\$ 708,442	\$ 717,719	\$ 9,277
Revenues (Sources)			
Service Rate Revenues			
Residential - Single Family	\$ 3,972,294	3,715,181	(257,112)
Residential - Multi-family	627,722	652,455	24,734
Non-Residential - Municipal	46,881	52,970	6,089
Non-Residential - Commercial	359,239	316,673	(42,566)
Non-Residential - Wholesale	133,806	135,307	1,501
Irrigation	122,047	132,150	10,103
Firelines	65,959	65,763	(196)
ERU Revenues	305,184	312,026	6,842
CIC Revenue	237,027	241,287	4,260
Franchise Fee Revenue	337,988	335,999	(1,989)
Total Service Rate Revenues	6,208,147	5,959,812	(248,334)
CIC Transfer to Construction	(237,027)	(241,287)	(4,260)
Other Revenue	234,899	477,025	242,126
Projected Revenues (Sources)	\$ 6,206,019	6,195,550	(10,469)

Required rate increases are determined by looking at cash inflows (revenues) net of cash outflows (costs).

Consequently the budget is shown with beginning and ending cash balances to give a full picture.

Revenue Forecast for 2013
Actual Revenue for 2013
Difference

2013 Budget to Actual Comparisons

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Residential - Multi-family	627,722	652,455	2. 24,734
Non-Residential - Municipal	46,881	52,970	6,089
Non-Residential - Commercial	359,239	316,673	3. (42,566)
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Total Service Rate Revenues	6,208,147	5,959,812	4. (248,334)
CIC Transfer to Construction	(237,027)	(241,287)	(4,260)
Other Revenue	234,899	477,025	242,126
Projected Revenues (Sources)	\$ 6,206,019	6,195,550	(10,469)
Projected Costs (Needs/Uses):			
Purchased Water:	\$ 1,493,805	1,531,081	5. 37,276
Accrued Unmetered Water Payment		408,754	408,754
Salaries and Benefits	1,416,896	1,484,923	6. 68,027
Capitalized labor		(169,418)	(169,418)
Administration and O&M	1,175,048	981,630	7. (193,417)
Taxes	293,217	330,623	8. 37,406
Franchise Payment	337,988	337,822	(166)
Debt Service	883,848	850,313	9. (33,535)
Capitalized Interest		(173,873)	(173,873)
Capital Transfer (In lieu of Depreciation Expense)	601,549	500,000	10. (101,549)
Total Projected Costs (Needs/Uses)	\$ 6,202,351	6,081,854	(120,497)
Additions to (Use of) Reserves (Net Gain or Loss)	3,668	113,696	110,028
Net Other Sources and Uses of Cash	-	(42,194)	10. (42,194)
Ending Balance of Maint (Operating) Fund Cash	\$ 712,110	\$ 789,221	\$ 77,112

- SF revenue is lower due to lower usage and growth than projected.
- MFR is higher due to one new MF complex in late 2013 but primarily from higher usage than projected.
- Commercial is lower due to 18 less customers in 2013 than in 2009 and drastically lower usage on seven high-end users in 2009 than in 2013.
- Lower service revenues were offset by higher than projected other revenues – primarily rents.
- Water from SPU is higher because SPU's faulty meters did not produce enough data for a good estimate. Wheeling charges were also omitted.
- Labor cost are higher due to cashouts. Capitalized labor not in budget.
- Admin & O&M is higher after removing \$225K for the meter replacement capital costs. Primarily due to higher professional services.
- Taxes higher due to under- budgeted forecast.
- Debt service lower than projected & most of the interest was capitalized.
- Capital transfer was less due overall more cash needed for non-operating cash items such as direct asset purchases
- Bottom line – down \$368k in total cash from operations available for capital – (\$77k-\$102-\$169k-\$174k).

2014 Rate Forecast Compared to 2014 YE Projections

MAINTENANCE (OPERATING) FUND CASH	2014 RATE FORECAST	2014 YE PROJECTION	2014 For/Pro DIFFERENCE
Beginning Balance of Maint (Operating) Fund Cash	\$ 712,110	\$ 789,221	\$ 77,111
Revenues (Sources)			
Service Rate Revenues			
Residential - Single Family	4,006,058	3,758,433	1. (247,625)
Residential - Multi-family	633,057	696,272	2. 63,214
Non-Residential - Municipal	47,280	50,845	3,565
Non-Residential - Commercial	362,293	319,476	3. (42,817)
Non-Residential - Wholesale	134,944	142,797	7,853
Irrigation	123,084	109,208	(13,876)
Firelines	66,520	67,018	499
ERU Revenues	307,778	311,627	3,849
CIC Revenue	239,042	240,919	1,878
Franchise Fee Revenue	337,988	341,896	3,908
Total Service Rate Revenues	6,258,043	6,038,491	4. (219,552)
CIC Transfer to Construction	(239,042)	(240,919)	(1,878)
Other Revenue	234,907	505,261	270,354
Projected Revenues (Sources)	6,253,908	6,302,833	48,925
Projected Costs (Needs/Uses):			
Purchased Water:	1,506,547	1,531,094	5. 24,547
Accrued Unmetered Water Payment			-
Salaries and Benefits	1,473,572	1,480,269	6. 6,697
Capitalized labor		(181,142)	(181,142)
Administration and O&M	1,207,378	1,046,342	7. (161,036)
Taxes	294,748	330,608	8. 35,860
Franchise Payment	337,988	341,990	4,002
Debt Service	850,380	816,280	9. (34,099)
Capitalized Interest		(165,000)	(165,000)
Capital Transfer (In lieu of Depreciation Expense)	614,156	1,000,000	10. 385,844
Total Projected Costs (Needs/Uses)	6,284,769	6,200,442	(84,327)
Additions to (Use of) Reserves (Net Gain or Loss)	(30,861)	102,391	133,251
Net Other Sources and Uses of Cash	-	(6,482)	(6,482)
Ending Balance of Maint (Operating) Fund Cash	\$ 681,249	\$ 885,130	\$ 203,881

- SF revenue is lower due to lower usage and growth than projected.
 - MFR is higher due to the addition of the North City Apartments - both in usage and the fixed charges.
 - Commercial lower due to 17 less customers in 2014 than in 2009 and drastically lower usage on seven high-end users in 2009 than in 2014.
 - Lower service revenues were offset by higher than projected other revenues – primarily rents.
 - Water from SPU is higher because SPU's faulty meters did not produce enough data for a good estimate. Wheeling charges were also omitted.
 - Labor costs in line before capitalization.
 - Admin and O&M both higher after removing \$225k for the meter replacement capital costs.
 - Taxes higher due to an under-budgeted forecast.
 - Debt service lower than projected & most of the interest was capitalized.
 - Capital transfer was higher due to transfers from P WTF fund, capitalized payroll and interest, and meters removed from O&M.
- Bottom line – up \$244k in total cash from operations available for capital – (\$386k+\$204k-\$181k-\$165k).**

Bottom Line

Two Year Impacts to Operating Cash

	2013 PROJECTED	2013 ACTUAL	DIFFERENCE	2014 PROJECTED	2014 ACTUAL	DIFFERENCE	2013-2014 COMBINED
Capital Transfer	602 K	500 K	-102 K	614 K	1,000 K	386 K	284 K
Capitalized Labor		-169 K	-169 K		-181 K	-181 K	-351 K
Capitalized Interest		-174 K	-174 K		-165 K	-165 K	-339 K
Ending Balance	<i>The surplus ending balance in 2013 rolled forward to 2014</i>			681 K	885 K	204 K	204 K
TOTAL			-445 K			244 K	-201 K

The direct capital transfer to the capital fund was \$284k higher than forecast but it is offset by the capital fund paying for part of the labor and part of the interest expense that was also not in the forecast.

The ending balance in the operating reserves is expected to be \$204k higher than forecast and maybe transferred to capital.

The net affect is that there is about \$200k less cash from operations available for capital than expected.

Considering the District paid over \$400k in unmetered water costs, all other current period operating costs were met, and the ending balance in the operating fund is above the required reserve levels, this is a better than expected results!



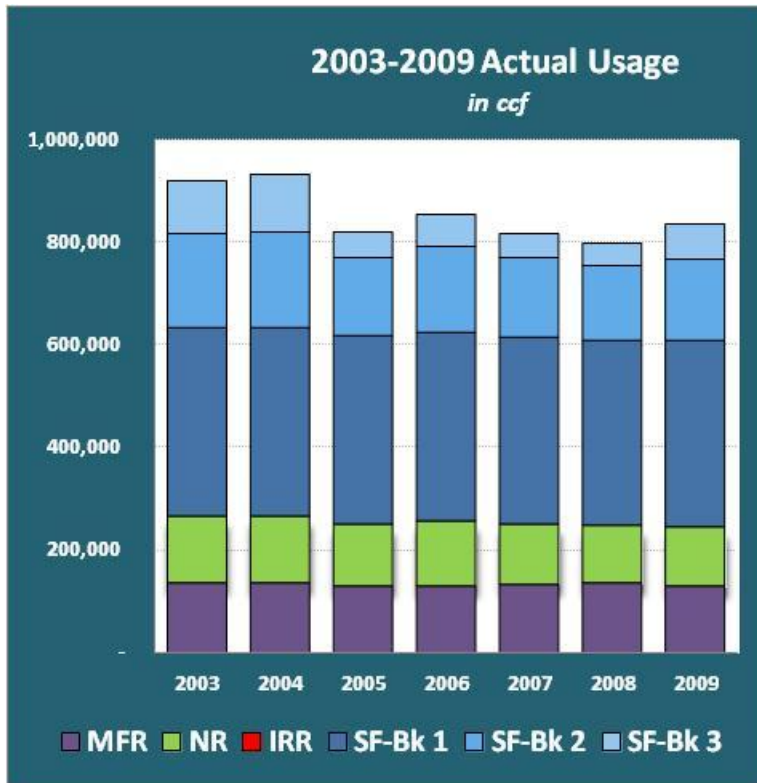
The next question to address is why were the service revenues in 2013 and 2014 so much less than projected in 2012.

Short answer:

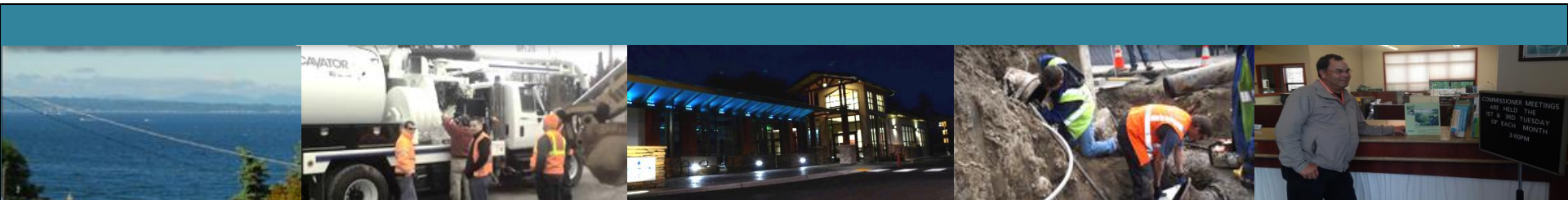
Lower Usage

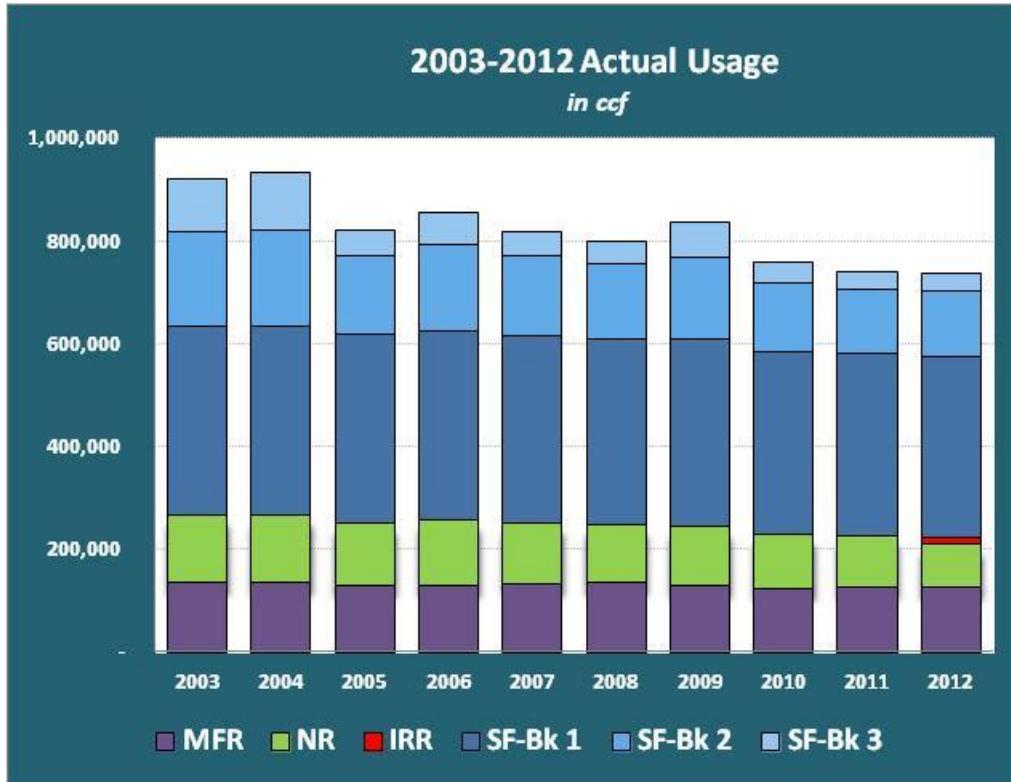
Less Growth





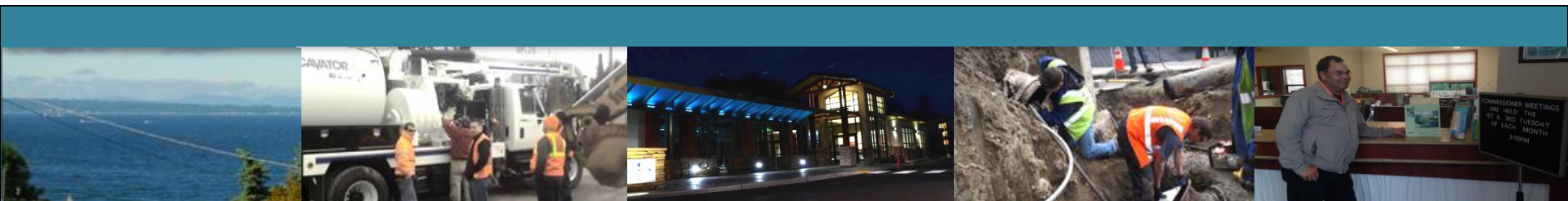
The rate study finalized in 2012 was actually started in 2010. At that point a review of the historical water usage showed that 2009 usage might be an average year – at the time it was probably even considered a conservative estimate.



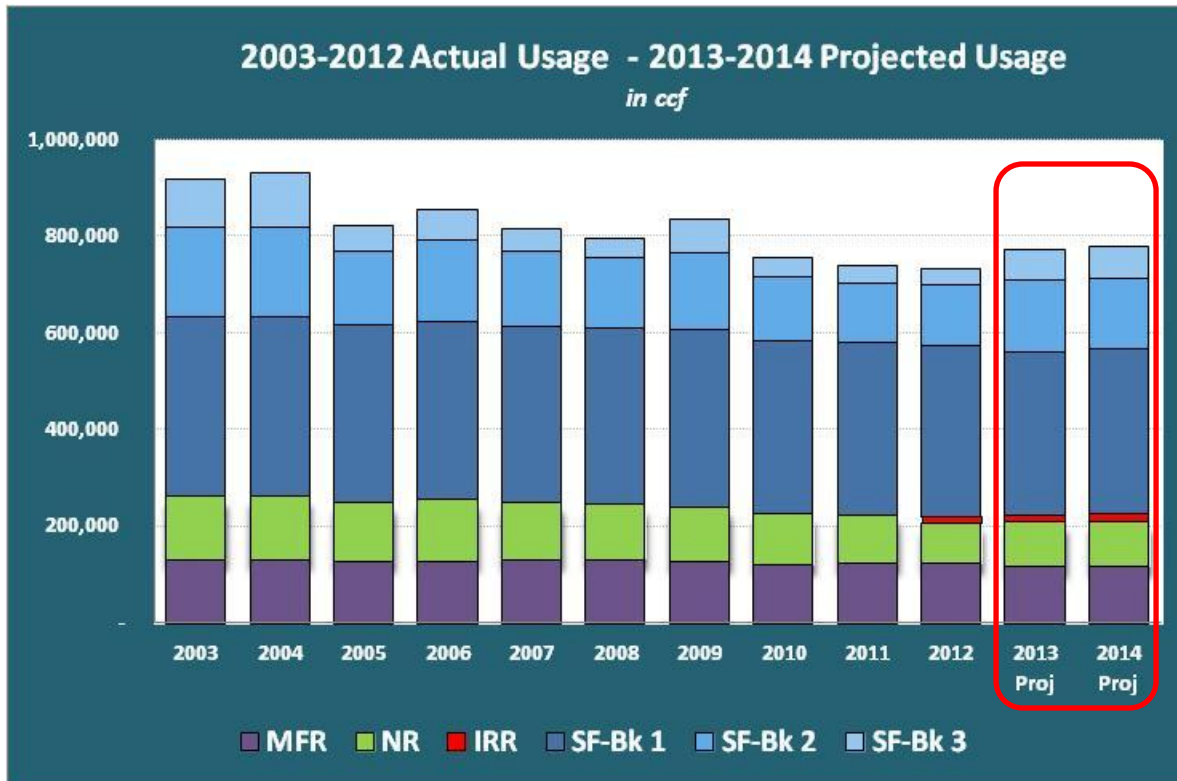


However, near the completion of the study it became clear that 2009 was not an average year and to use it as a base year going forward would significantly overstate revenues.

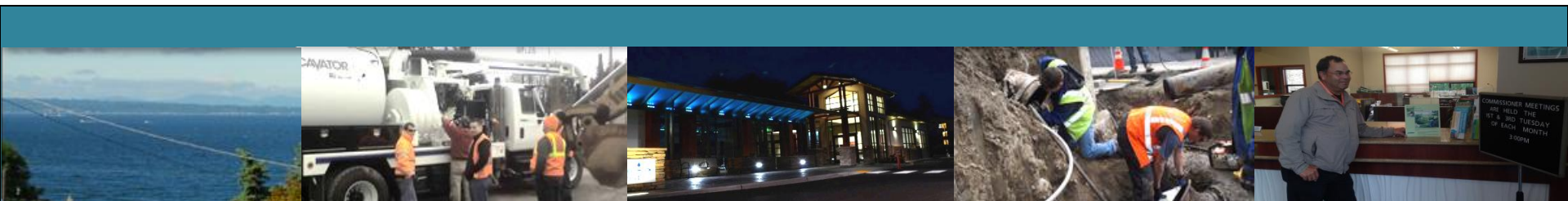
The data showed that the downward trend was both in the higher blocks, which is usually attributable to the weather, as well as in the base usage, which would indicate a conservation effect (or under performing meters).

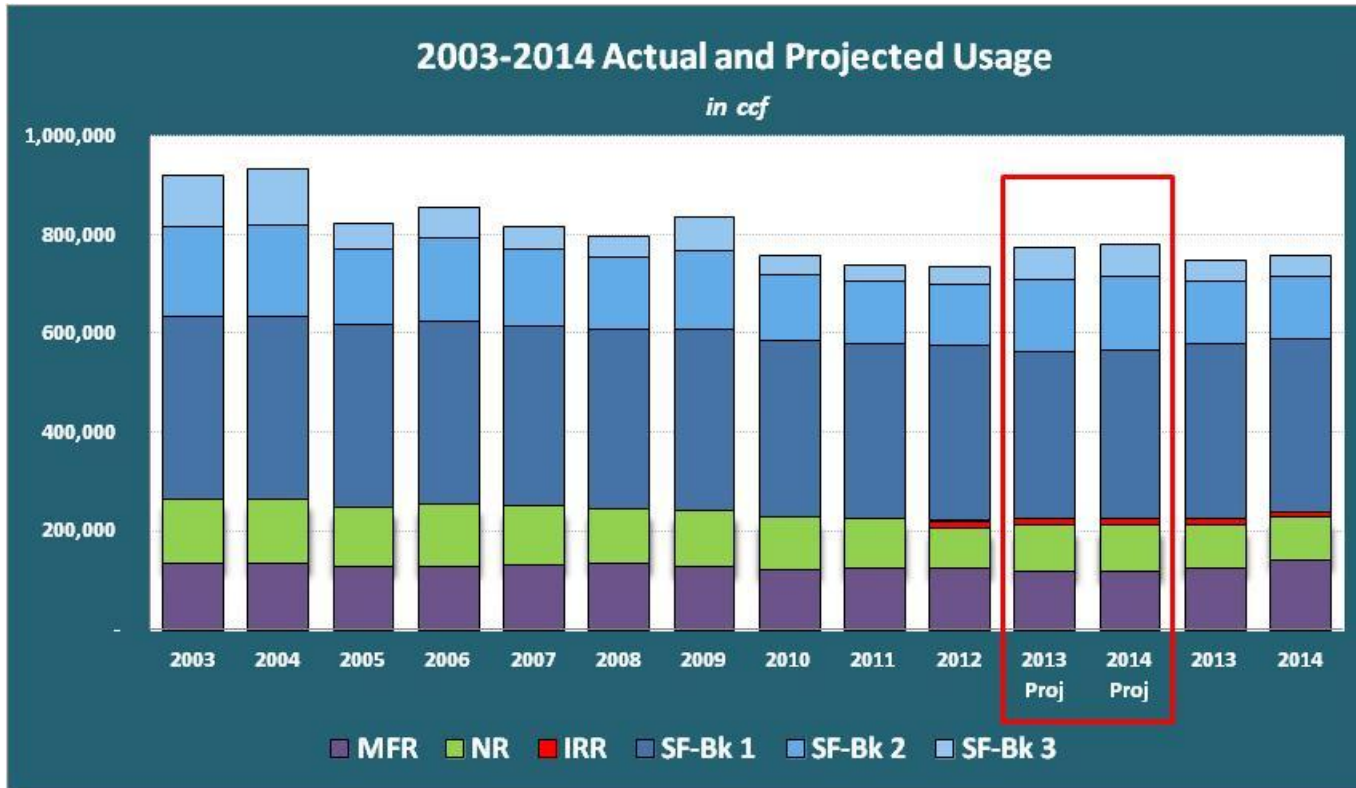


COMMISSIONER MEETINGS
WILL BE HELD THE
1ST & 3RD TUESDAY
OF EACH MONTH
3:00PM

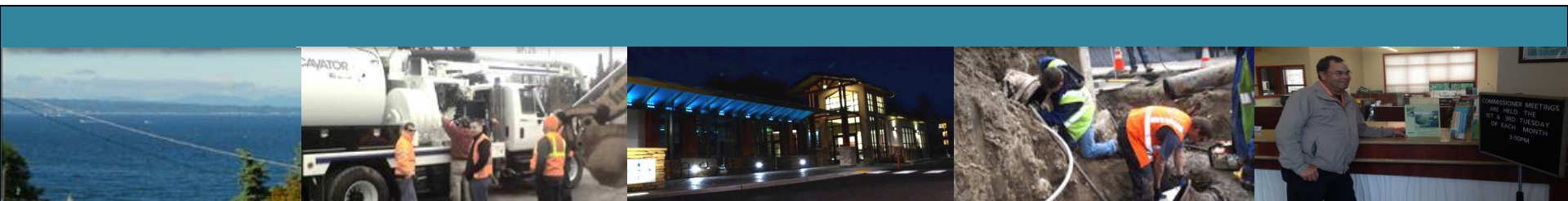


Consequently, the usage shown in 2009 was reduced across the board by 7% for 2012 and then grown by .85% a year for 2013 and 2014.

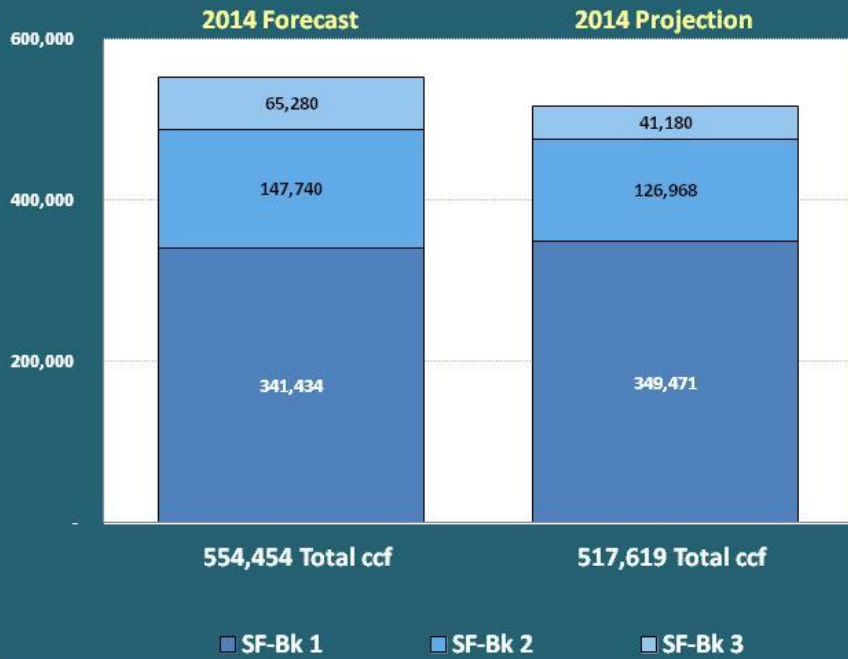




The total actual usage in 2013 and projected final usage in 2014 is under the forecast usage for all classes except multi-family.



2014 Forecast versus Actual SF Usage - in ccf



It turns out the overall forecasted usage was too high (over by 36,835 ccf) but the base usage was too low (under by 8,038 ccf). The overall actual usage projected for 2014 is expected to be about 6% under the forecast amount.

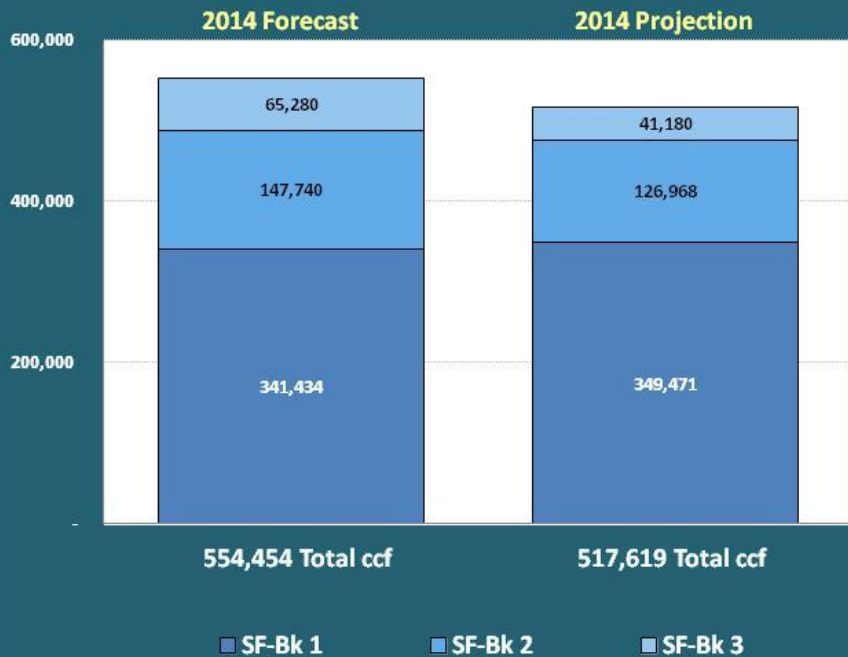
The result of this has a significant impact to revenues because the rates are higher in the higher blocks. The shortfall in revenues is expected to be around 10.5%.

Single Family	2014 Forecast	2014 Actual	Difference
Blk 3	65,280	41,180	(24,100)
Blk 2	147,740	126,968	(20,772)
Blk 1	341,434	349,471	8,037
Total	554,454	517,619	(36,835)

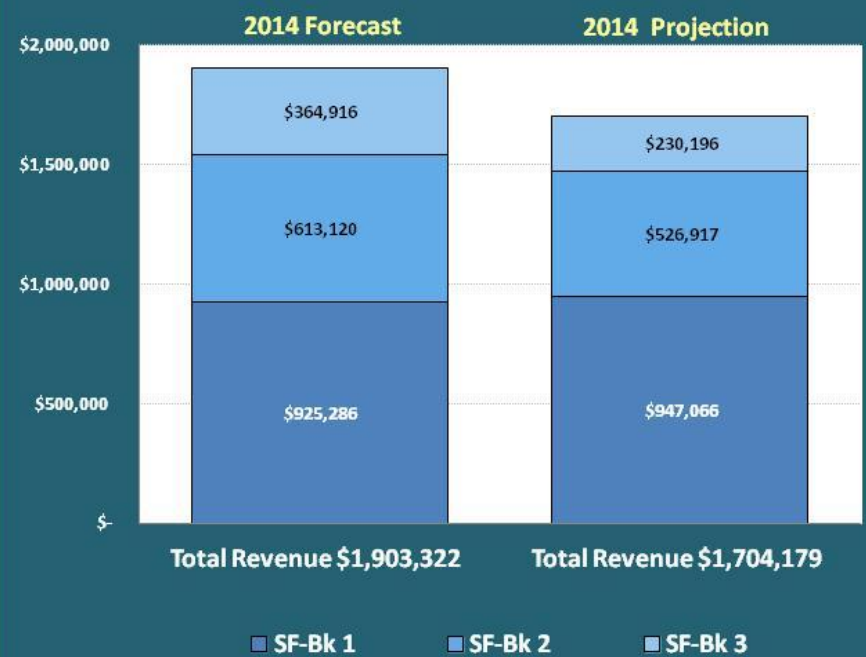


Closer Look at Single Family

2014 Forecast versus Actual SF Usage - in ccf



2014 Forecast versus Actual SF Revenue



The lower usage explains close to \$200k of the \$247k shortfall in single family service revenues.

The other difference is due to a much slower growth rate in SF family than projected and the inclusion of the low-income discount, which was not budgeted.

Single Family	2014 Forecast	2014 Actual	Difference
Blk 3	\$ 364,916	\$ 230,196	\$ (134,720)
Blk 2	\$ 613,120	\$ 526,917	\$ (86,203)
Blk 1	\$ 925,286	\$ 947,066	\$ 21,780
Total	\$ 1,903,322	\$ 1,704,179	\$ (199,143)



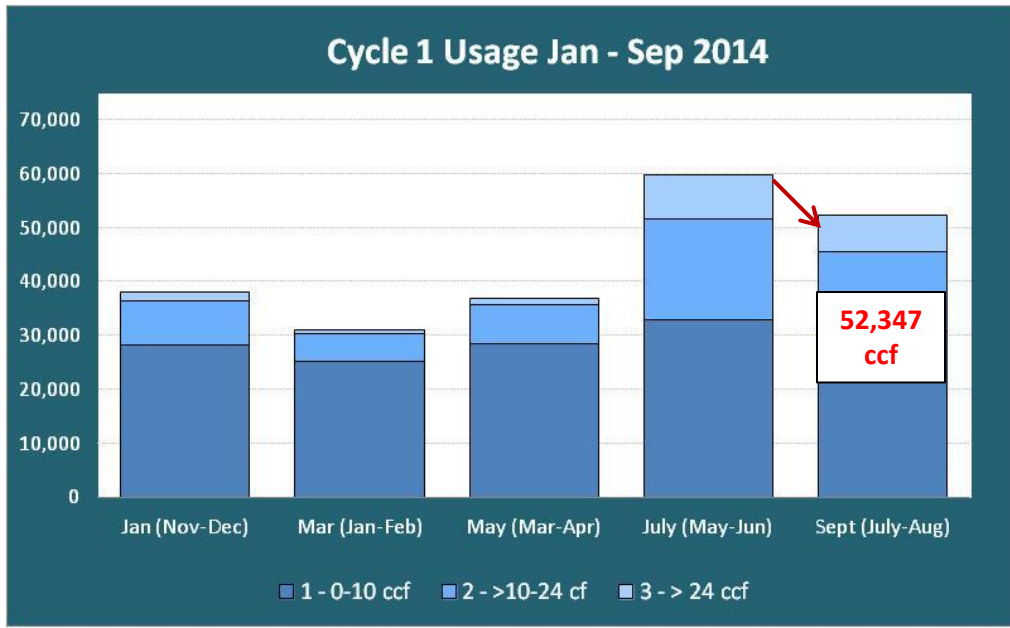
The next question to consider is what do we do with this information to create a new base-year forecast going forward.

Short answer:

- 1) Consider the trend in water usage***
- 2) Consider the impacts of the new meters on usage***

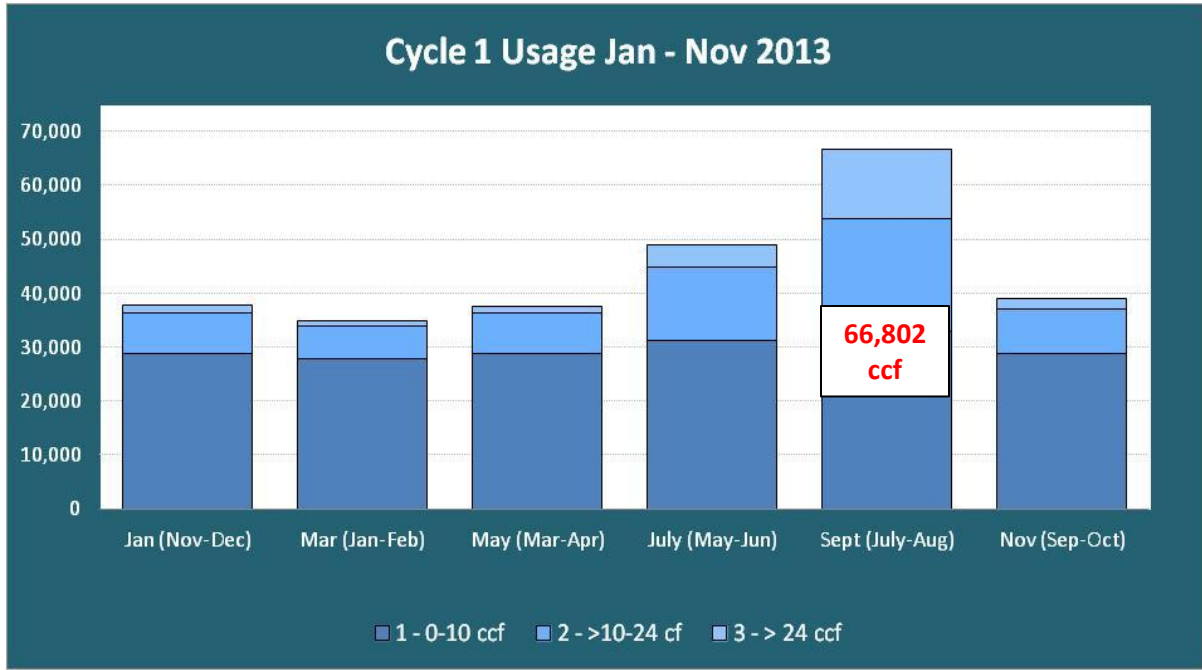


Closer Look at the 2014 Usage for Single Family



The billing this month (Sept) is for usage in July and August and it was less than in the July billing for usage in May and June.

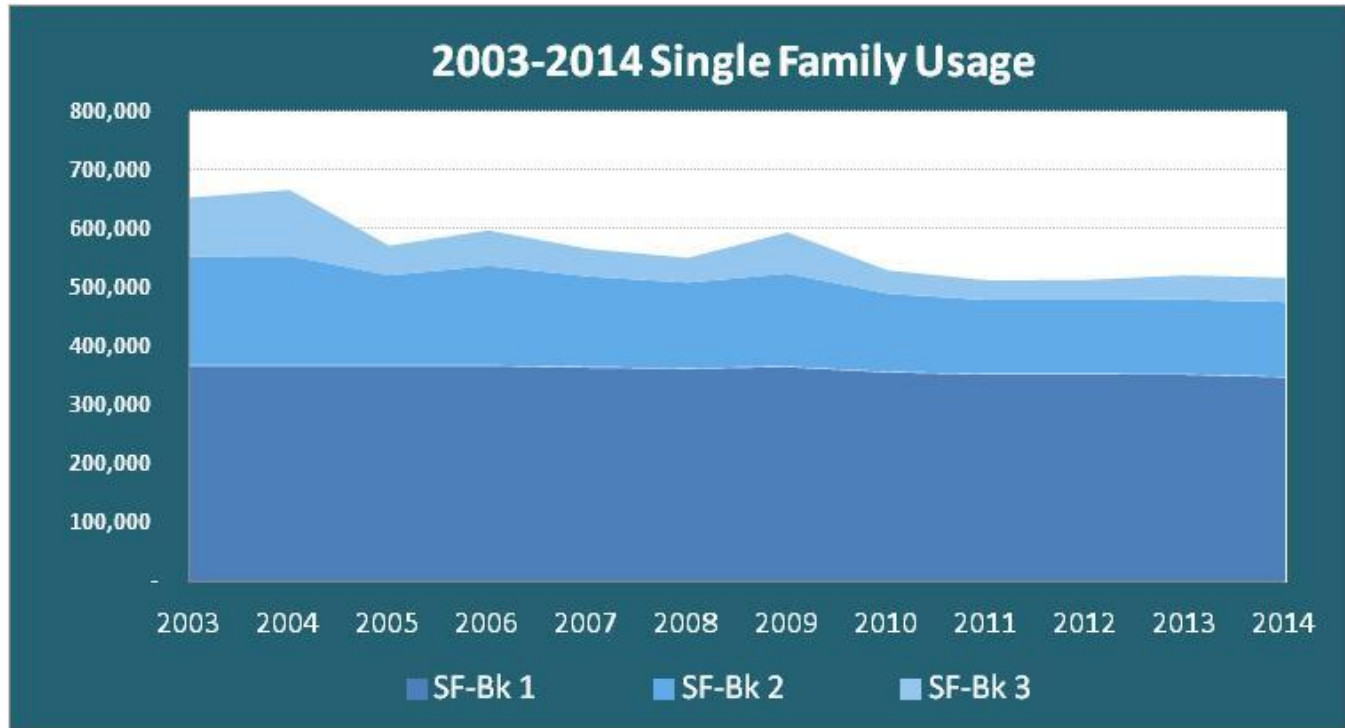
Given that the temperature has gone up 4 degrees a decade since 1970, with July 2014 being the hottest month on record in the northwest, this is surprising.



Especially so when Sept of 2013 was higher than in 2014 and it was a cooler month.

Therefore, we need to wait a couple of months before we decide on the base year forecast.

Water Usage Trend Line for NCWD Single Family Customers



Over the past decade the District's single family customers have trended down in water usage. This could be the conservation effect, or under performing meters, or both.

No matter what we use as the base year going forward, we will need to be conservative until we have more reads from our new meters.



What's Next?

Capital Budget will be presented on October 7th



End

