

DWSD BUDGET REVIEW

BOWC MEETING

3/15/2017

We have completed a first pass of the budget; sewer rates



DWSD Preliminary 2-Year Budget Proposal

	WATER		SEWER	
	2018	2019	2018	2019
Net Sales Revenue	\$ 113,664,368	\$ 113,522,623	\$ 259,308,417	\$ 266,176,144
Total O&M Charges	38,157,293	38,503,758	60,274,905	60,798,982
Contribution Margin	75,507,075	75,018,865	199,033,513	205,377,162
Total Wholesale Rate Charges	15,794,391	16,426,166	52,528,046	54,629,168
Gross Margin	59,712,684	58,592,699	146,505,466	150,747,994
Total Other Operating Expenses	8,338,859	7,707,084	12,430,214	16,669,210
	51,373,825	50,885,615	134,075,252	134,078,784
Total Non-Operating Expenses	48,397,870	51,411,316	132,860,363	135,368,077
Deposits to I&E	2,975,955	(525,701)	1,214,890	(1,289,293)
Minimum Rate Increase	-2.87%	0.50%	-0.44%	0.46%
Additional I&E Deposits	\$ 4,000,000	\$ 4,000,000	\$ 10,000,000	\$ 10,000,000
Additional Rate Increase	3.86%	3.84%	3.62%	3.55%
Max Rate Increase	0.99%	4.34%	3.18%	4.01%

Several major assumptions underpin our budget

Major Assumptions

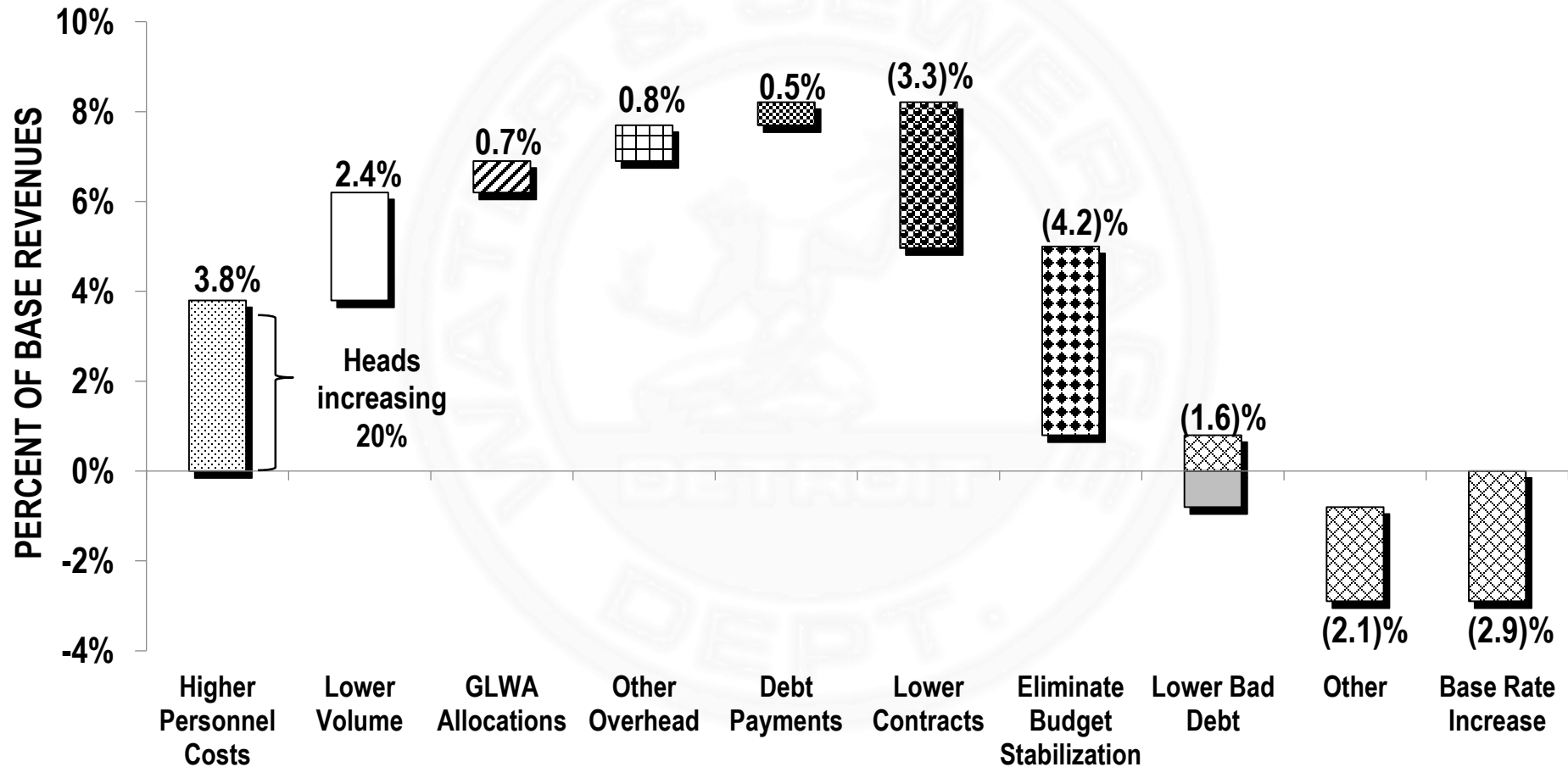
Metric	Water	Sewer
Volume	2,985,000 (↓1.5%)	2,600,000 (↓7.0%)
One Year Collection Rate	92% (↑ 2%)	
Bad Debt Expense	\$11,400,000	\$22,500,000
Default System Allocation	40%	60%
Headcount	592 (↑ 104 heads)	
Employee Compensation	2%	2%

Other Assumptions

- ▶ Lease payments deposited to I&E funds; no support of rates
- ▶ GLWA allocated expenses reduce by \$7 million vis-à-vis FY '17 budget to reflect more appropriate allocation of Administrative & General costs and impact of sewer charges workgroup
- ▶ Reduction in hospitalization assumption to 10% of salaries to reflect elimination of sewer treatment plant workers in DWSD employee pool (down from 21%)
- ▶ Zero net impact of shared services agreement true-up
- ▶ Elimination of water budget stabilization reserve funding
- ▶ Reduced deposits to ER&R

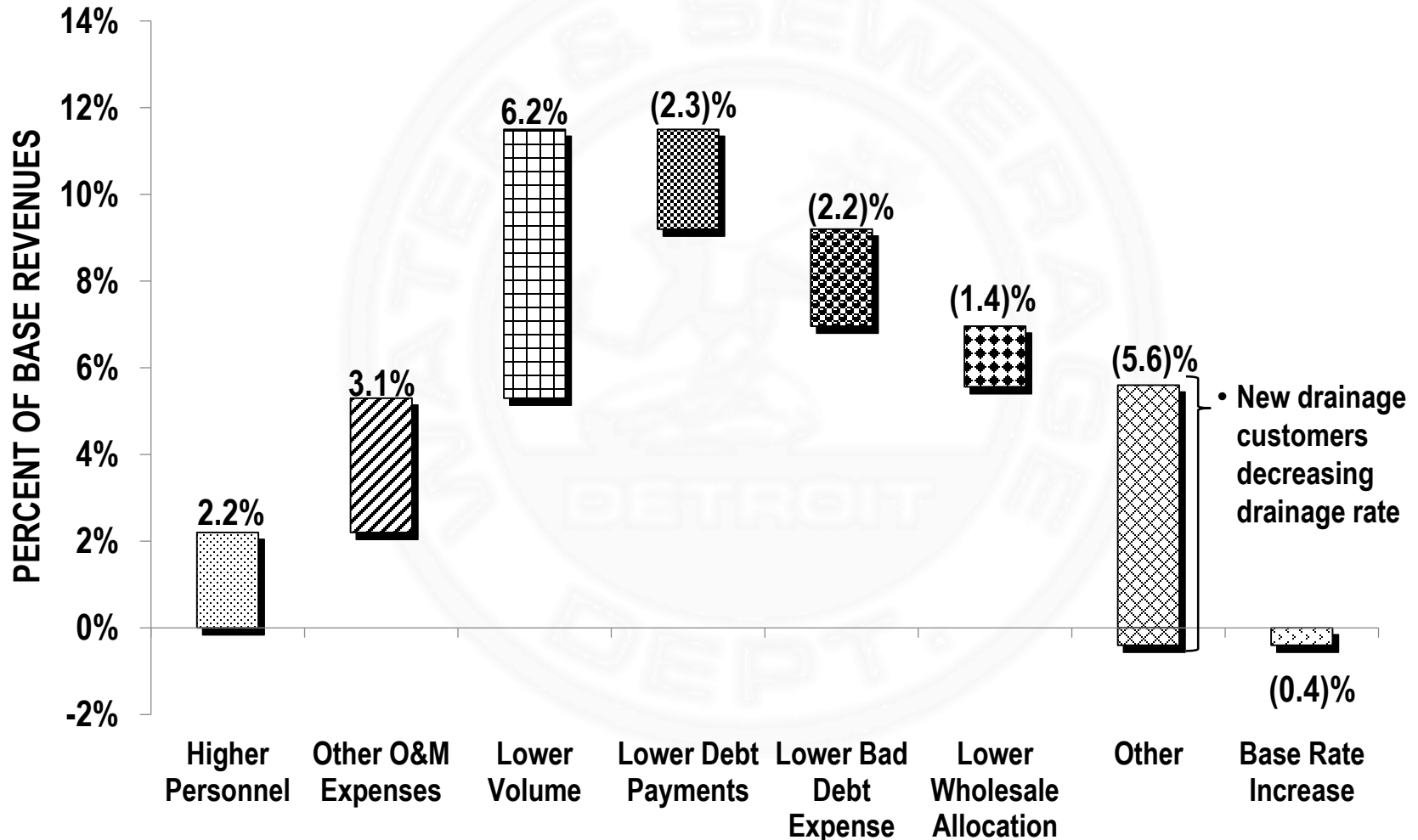
Potential stable water rates driven by estimated elimination of budget stabilization requirements and funding of leak repair with I&E dollars

Water FY 2017 to FY 2018 Rate Walk



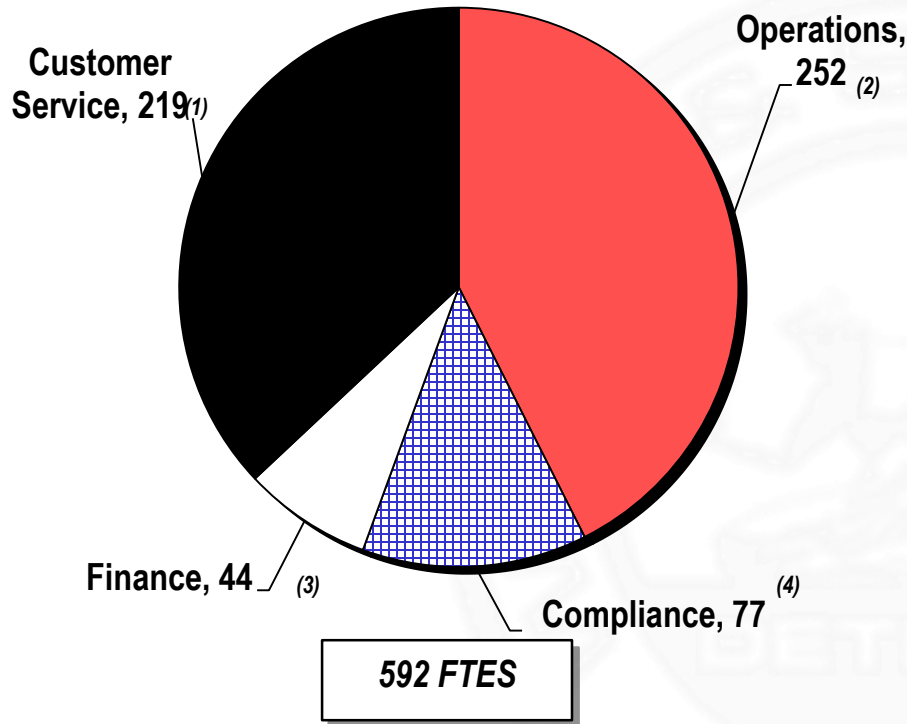
We are projecting further decreases in sewer commodity volumes; this should be offset by increases in the number of drainage customers

Sewer FY 2017 to FY 2018 Rate Walk

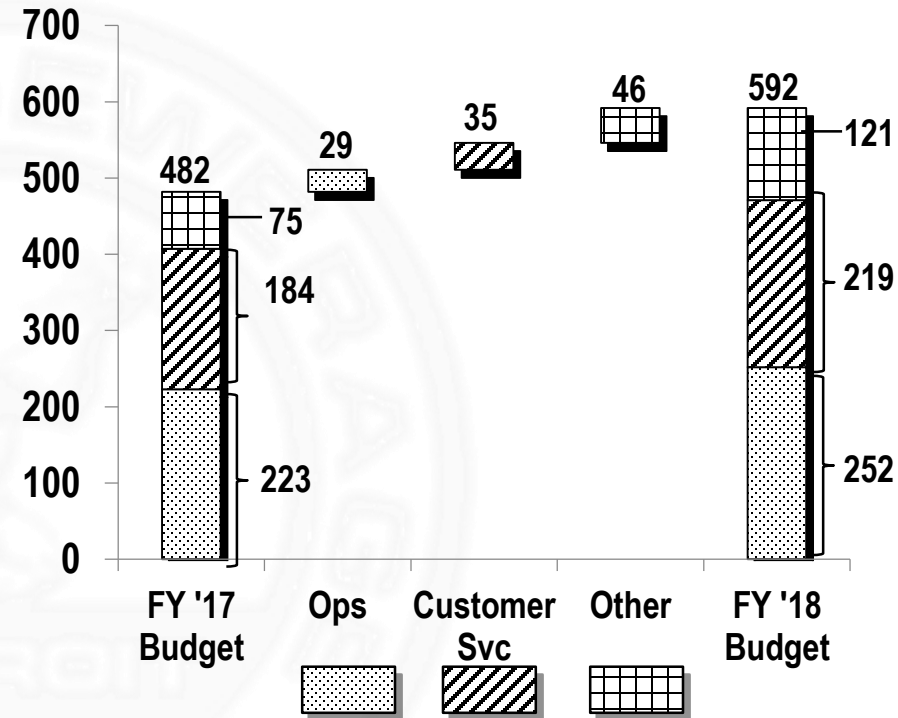


Significant increases in Customer Service and Field Operations headcount; albeit lower than initial budget request; DWSD also absorbing security

Projected 2018 Headcount (Preliminary)



DWSD FY '17 vs. FY '18 Headcount

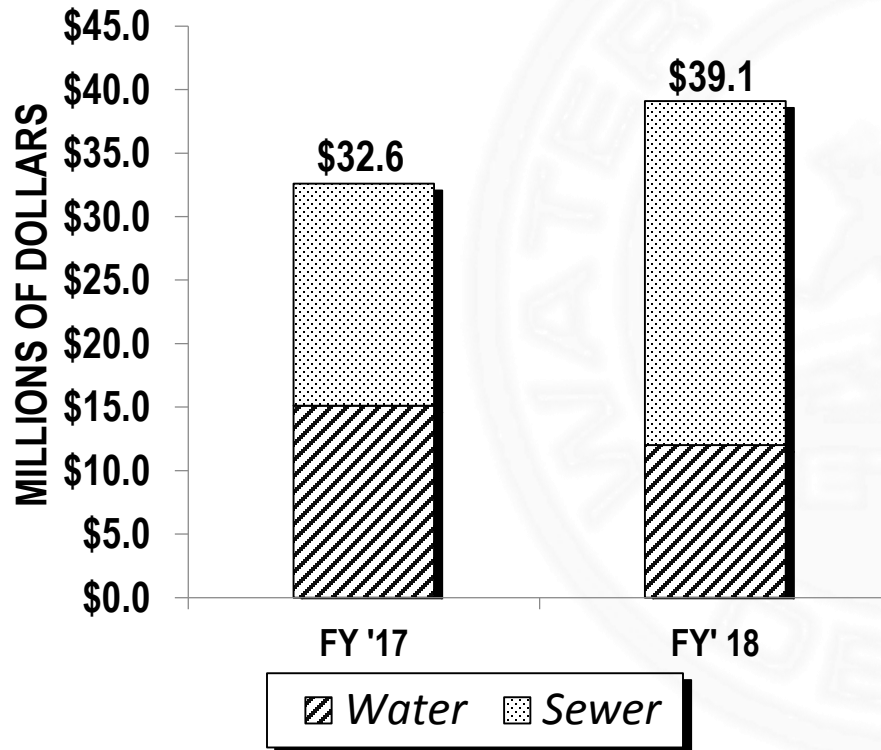


- ▶ New Drainage initiative and delinquency management (shut-offs, illegal checks, etc,) continues to tax customer service centers as well as call center; requested heads for reducing wait time
- ▶ Field services taking over fire hydrant maintenance; significant open orders still in place

(1) Customer service includes Service Centers, Billing & Collection, Meter Operations, and Fleet
 (2) Operations includes Field Services and Field Engineering
 (3) Finance includes Budget, Accounting, Purchasing, & Material Management
 (4) Compliance includes Legal, Public Relations, Security, and Information Technology

Budgeted FY '18 contract spending increased \$6.5 million or 20% increase over FY '17; decreases in water offset by increases in sewer

DWSD FY '17 vs. FY '18 Contract Spending



Major Contract Additions

- ▶ Drainage program implementation (↑ \$2 million)
- ▶ Increased pavement repair (↑ \$2 million)
- ▶ Increased legal expenses (↑ \$1 million)
- ▶ Toilet Replacement Program (↑ \$1.2 million) to be launched in October 2017

Several of the headwinds that persisted through FY '17 exist in FY '18 and FY '19 as well; we are developing a plan to deal with the potential issues

DWSD Budget Headwinds

Risk Characteristics	Volume Declines Accelerate	Collection Rates Don't Meet Expectations	DWSD / GLWA Cannot Settle on Appropriate Allocation
Probability	<ul style="list-style-type: none"> • Low-Medium 	<ul style="list-style-type: none"> • Medium 	<ul style="list-style-type: none"> • Medium
Impact	<ul style="list-style-type: none"> • Every 1% decline in volume reduces revenues an additional \$3 million 	<ul style="list-style-type: none"> • 5% decrease in collection rate increases sewer bad debt allowance by \$10 million and water bad debt expense \$7 million 	<ul style="list-style-type: none"> • Maintaining current methodology will increase Sewer allocated expenses by \$16 million vis-à-vis budgeted amounts
Mitigating Factors	<ul style="list-style-type: none"> • More fixed charges with new drainage customers 	<ul style="list-style-type: none"> • Maintaining delinquency management • Potentially expanding WRAP • New anti-water theft team to be launched 	<ul style="list-style-type: none"> • Leveraging customer outreach process • Entering dispute resolution process

Additional Options

- ▶ Pare merit increases as necessary
- ▶ Limit non-critical IT and other contract spending
- ▶ Stagger hiring of incremental headcount

For FY 2017 and FY 2018 we have budgeted \$14 million per year in I&E between the water and sewer funds to mitigate downside budget risks

- ▶ **Provides additional flexibility in the event of accelerated declines in volume, increase in unforeseen expenditures, or lower collections**
- ▶ **Protects DWSD in the event of unfavorable dispute resolution**
- ▶ **Allows for more cash availability for System Revenue Finance Capital, decreasing funding need**
- ▶ **Begins to build DWSD credit rating; reducing reliance on GLWA and providing debt issuance flexibility**
- ▶ **The Goal: 200 days cash on hand by FY 2021**

Next steps...

- ▶ Present to BOWC on Wednesday
- ▶ Present budget amendments to FRC
- ▶ April: Presentation of Financial Strategy
- ▶ May: Introduction and Approval of Rates by Customer Class

